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AUTHOR	Sanders, Leon; And Others
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ABSTRACT

Divided into three units, this curriculum guide on entrepreneur education covers nineteen individual areas of instruction and can be conducted in a series of nine workshops. (The development, field testing, and evaluation of the curriculum are reported separately as CE 015 581.) Unit I covers the following areas of instruction: planning, organizing, and operating a business (an introduction to the workshop); selecting a business location; market analysis, marketing techniques and methods; working capital and cash flow; return on assets and investments and accounts receivable and payable; personnel management (finding and evaluating applicants, orientation, training, and discipline); and inventory control and product pricing. Unit II covers the following areas of instruction: purchasing (assessing needs, effective buying, locating suppliers, and supplier relationships); space utilization and organizational structure; business and payroll taxes; employee compensation, job evaluation, performance appraisal, and time management; customer service, personal selling, and competition; and advertising and display. Unit III covers the following areas of instruction: management (functions, characteristics and evaluation); motivation (human needs, behavior and individual differences); financial recordkeeping and statements; planning for success; ratio and break-even analysis; and budgeting and forecasting. Each of the nineteen instructional units follows a similar format which includes objectives, information sheets, job sheets, assignment sheets, evaluation sheets, and answer sheets. (EM)

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NEBRASKA
Personnel Development
For Entrepreneurs

Project Product

ED153006

PERSONNEL DEVELOPMENT FOR ENTREPRENEURS

FY 77 PART C PROJECT
FUNDED BY THE U.S. OFFICE OF EDUCATION

PROJECT DIRECTORS:
JULIE BOETTCHER--NEBRASKA RESEARCH COORDINATING UNIT, LINCOLN, NEBRASKA
RON HUTKIN--PLATTE TECHNICAL COMMUNITY COLLEGE, COLUMBUS, NEBRASKA

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Platte
Technical
Community
College

A College of the Central Technical Community College Area

OE 015 580

INTRODUCTION

Enclosed in the book are the units used for instructing nine workshops on entrepreneur education. The original content items were developed by the members of the Lincoln and Columbus advisory committees. The content items were then processed into the nineteen individual units that follow.

Mr. Leon Sanders, Business and Industrial Cluster Chairman, Mr. Lynn Higgins and Mr. Jack Kappeler, PTCC instructors, are to be credited with the production of the nineteen units. These men devoted long and diligent hours to the task. All of the units were typed by Mrs. Gera Beideck, PTCC secretary.

CONTENTS

I. UNIT I

   A. Session I

      1. Introduction to Workshop
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      3. Market Analysis, Marketing Techniques and Methods

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   C. Session III

      1. Personnel Management: Finding and Evaluating Applicants, Orientation, Training and Discipline
      2. Inventory Control and Product Pricing

II. UNIT II

   A. Session I

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      2. Space Utilization and Organizational Structure

   B. Session II

      1. Business and Payroll Taxes
      2. Employee Compensation, Job Evaluation, Performance Appraisal, and Time Management

   C. Session III

      1. Customer Service, Personal Selling and Competition
      2. Advertising and Display

III. UNIT III

   A. Session I

      1. Management: Functions, Characteristics and Evaluation
      2. Motivation: Human Needs, Behavior and Individual Differences

   B. Session II

      1. Financial Record Keeping and Statements
      2. Planning for Success

   C. Session III

      1. Ratio and Break-Even Analysis
      2. Budgeting and Forecasting

INTRODUCTION TO WORKSHOP
PLANNING, ORGANIZING, AND OPERATING YOUR OWN BUSINESS
UNIT I - FIRST SESSION

UNIT OBJECTIVE

After completion of Unit I, the student should be able to explain the intent of this workshop and the purpose and use of learning packets. He should also be able to demonstrate a knowledge of criteria for businesses classified as small and elements necessary for the success of these businesses. This knowledge will be evidenced through demonstration and by scoring eighty-five percent on the unit test.

SPECIFIC OBJECTIVES

After completion of this unit, the participant should be able to:

1. Match terms associated with small businesses to correct definitions.
2. Describe the purpose and intent of the unit packet.
3. Name four parts of a unit packet.
4. Name the four criteria for a business to be classified as small according to the Committee for Economic Development.
5. Describe the quantitative size classifications for small businesses as determined by the SBA for: retailers, wholesalers, manufacturers, and service businesses.
6. Identify general attributes of industries where small firms predominate.
7. Name three reasons why small businesses are important to our economic system.
8. Explain why risks of failure are greater for small businesses.
9. Name five general classifications of business failure.
10. Identify the key element for small business success.
11. Name three attributes of successful management.
12. Describe the intent of the course format.

INTRODUCTION TO WORKSHOP
PLANNING, ORGANIZING, AND OPERATING YOUR OWN BUSINESS
UNIT I - FIRST SESSION

INSTRUCTIONAL MATERIALS

I. Included in this unit:

   A. Objectives

   B. Information sheets

   C. Transparency masters

   D. Assignment sheets

   E. Test

II. References:

   A. Baumback-Lawyer-Kelley. How To Organize and Operate a Small Business. Englewood Cliffs, New Jersey: Prentice-Hall.

   B. Klatt. Small Business Management: Essentials of Entrepreneurship. Belmont, California: Wadsworth Publishing Company, Inc.

   C. Pickle-Abrahamson. Small Business Management. Santa Barbara, California: Wiley/Hamilton Publication, John Wiley & Sons, Inc.

   D. Steinhoff. Small Business Management Fundamentals. New York: McGraw Hill Book Company.

INTRODUCTION TO WORKSHOP
PLANNING, ORGANIZING, AND OPERATING YOUR OWN BUSINESS
UNIT I - FIRST SESSION

INFORMATION SHEET

I. Terms and definitions

   A. Small business--One which is independently owned and operated and not dominant in its field of operation

   B. Retail business--A firm that buys finished goods for use by consumers adding place utility

   C. Service business--A firm that does not provide a consumable product for customers but a nonmaterial service

   D. Wholesale business--A firm that distributes industrial and consumer goods

   E. Manufacturing business--A gatherer of raw materials for creation of consumer and industrial products giving them useful form through the manufacturing process

   F. Success--Maintaining a profitable operation

   G. Shoestring operation--A business operation which usually has little capital reserve

   H. Small Business Administration (SBA)--An agency established by Congress in 1953 for the purpose of assisting small businesses

II. Purpose and intent of the unit packet

   A. Provide skeletal details of information to be discussed

   B. A convenient method for review

   C. A convenient method for presentation of information

III. Parts of the unit packet (Transparency 1)

   A. Objectives - (white) What we want you to learn from the information given

   B. Information sheets - (green) An explanation, in outline form, of the material to be covered during the discussion

C. Job sheets - (blue) A specific explanation of how to perform a specific task

D. Assignment sheets - (buff) Tasks to be performed to reinforce learning

E. Evaluation sheets - (yellow) An instrument to assess what you have learned

IV. Four criteria for a business to be classified as small according to the Committee for Economic Development (Transparency 2)

A. Management is independent

B. Capital supplied and ownership held by an individual or small group

C. Area of operation localized

D. Size small relative to the industry

V. Quantitative classifications for small businesses as determined by the SBA

A. Retail businesses - Annual receipts not exceeding $1 million

B. Service businesses - Annual receipts not exceeding $1 million

C. Wholesale businesses - Annual receipts not exceeding $5 million

D. Manufacturing businesses - Employs fewer than 250 persons

VI. General attributes of industries where small firms predominate

A. Technological requirements minimal

B. Managerial experience requirements perceived as unimportant

C. Capital requirements low

D. Localized nature of market

VII. Importance of small businesses to our economic system

A. One of the few areas still open to individual effort and enterprise away from bureaucratic control

B. Allows for better communications between owners and customers

C. Allows for better communications between owners and employees

D. Flexible in production, marketing and services to meet public demands

E. Large firms dependent on small business for survival

VIII. Risk elements greater for small businesses

- A. Operate on a shoestring and cannot afford mistakes
- B. Ease of entry into this form of business creates overcrowding and excess competition
- C. More susceptible to the pressures of economic fluctuations

IX. Why businesses fail (by classification)

- A. Personal factors
  - 1. Lack of knowledge of the business
  - 2. Unwillingness to accept advice
  - 3. Unwillingness to work long hours
  - 4. Contentment with things as they are, inflexibility, resistance to change
  - 5. Excessive expenditures in flush periods
  - 6. Expenditures of operating capital for other things
- B. Inadequate planning
  - 1. Lack of knowledge or foresight regarding location
  - 2. Failure to anticipate emergency financial needs
  - 3. Failure to foresee one major beginning error
  - 4. Failure to understand relationships between income, sales, and expenses
- C. Inadequate financing
  - 1. Not enough to afford proper location
  - 2. Not enough to weather that "one major error"
  - 3. Not enough to buy merchandise independently at best price, in adequate quantities or varieties
- D. Obsolete methods
  - 1. Lack of adequate expense controls
  - 2. Lack of adequate inventory controls

3. Lack of adequate personnel controls

4. Lack of modern equipment

E. Multiplicity of duties

1. The "one-man band" problem

2. Inability to perform a wide variety of business functions equally well

F. Competitive factors

1. Patent advantages of competitors

2. Superior managerial ability of competitors

3. Inability to attract best product lines

G. Poorly qualified personnel--resulting from:

1. Inability to pay competitive wages

2. Unwillingness to delegate responsibility

H. Lack of technical research--not large enough to utilize competent research personnel or facilities economically

I. Decline of the industry--entrance into an industry which is no longer an essential one, because of

1. Changing social and economic needs

2. Change in buying habits

J. Legal restrictions--legislation and regulations--licensing, zoning, health

K. Taxation

1. Difficulty of building up capital for expansion

2. Lack of need for the business in the area selected

3. Lack of patent protection

X. The key element for small business success--MANAGEMENT

XI. Attributes of successful management

A. Experience

B. Knowledge

  C. Confidence

  D. Planning

  E. Timing

XII. Intent of the course format

  A. Briefly explain concepts necessary for successful business management in a concise way that will be useful and interesting

  B. Suggest supplementary sources of information

PARTS OF THE UNIT PACKET

OBJECTIVES - (WHITE)

What We Want You To Learn From The Information Given

INFORMATION SHEETS - (GREEN)

An Explanation, In Outline Form, Of The Material To Be Covered During The Discussion

JOB SHEETS - (BLUE)

A Specific Explanation Of How To Perform A Specific Task

ASSIGNMENT SHEETS - (BUFF)

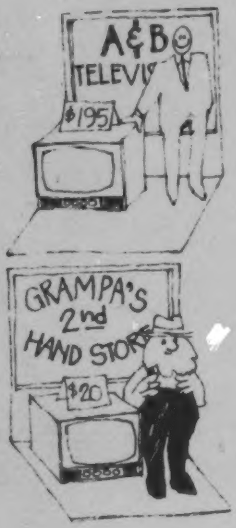
Tasks To Be Performed To Reinforce Learning

EVALUATION SHEETS - (YELLOW)

An Instrument To Assess What You Have Learned

REAL ESTATE
BOUTIQUE
RUGS
Rx
SUPER MARKET
GASOLINE

CRITERIA FOR A BUSINESS TO BE CLASSIFIED AS SMALL:


A&B
TELEVI
$195
GRAMPA'S
2nd
HAND STORE
$20

MANAGEMENT IS INDEPENDENT

CAPITAL SUPPLIED AND OWNERSHIP HELD BY AN INDIVIDUAL OR SMALL GROUP

AREA OF OPERATION LOCALIZED

SIZE SMALL RELATIVE TO THE INDUSTRY

TM 2

INTRODUCTION TO WORKSHOP
PLANNING, ORGANIZING, AND OPERATING YOUR OWN BUSINESS
UNIT I - FIRST SESSION

ASSIGNMENT SHEET #1

I. Match the terms on the right to the correct definition.

_____ a. Tasks to be performed to reinforce learning

_____ b. An explanation, in outline form, of the material to be covered during the discussion

_____ c. A specific explanation of how to perform a specific task

_____ d. An instrument to assess what you have learned in the unit

_____ e. What we want you to learn from the information to be discussed

1. Objectives
2. Information sheets
3. Job sheets
4. Assignment sheets
5. Evaluation sheets

II. Indicate the color code used for each of the following parts of a unit packet.

1. Objectives __________
2. Information sheets __________
3. Job sheets __________
4. Assignment sheets __________
5. Evaluation sheets __________

INTRODUCTION TO WORKSHOP
PLANNING, ORGANIZING, AND OPERATING YOUR OWN BUSINESS
UNIT I - FIRST SESSION

ASSIGNMENT SHEET #2

I. Briefly explain why the elements of risk are greater for small businesses than for large businesses.

II. Briefly explain why each of the following is an attribute of successful management.

A. Experience

B. Knowledge

C. Confidence

D. Planning

E. Timing

INTRODUCTION TO WORKSHOP
PLANNING, ORGANIZING, AND OPERATING YOUR OWN BUSINESS
UNIT I - FIRST SESSION

ANSWERS TO ASSIGNMENT SHEETS

Assignment Sheet #1

I. a. 4. assignment sheets

b. 2. information sheets

c. 3. job sheets

d. 5. evaluation sheets

e. 1. objectives

II. 1. white

2. green

3. blue

4. buff

5. yellow

Assignment Sheet #2

I. Why risk elements are greater for small businesses

A. Operate on a shoestring and cannot afford mistakes

B. Ease of entry into this form of business creates overcrowding and excess competition

C. More susceptible to the pressures of economic fluctuations

II. Why each of the following is an attribute of successful management

A. Experience--Learn at others expense not your own; understanding the business improves your ability to manage properly and successfully

B. Knowledge--You cannot afford mistakes so you must make sure that you know all you possibly can about a business, product, or service; improves your ability as a manager

C. Confidence--Must believe in your policies, procedures and products or services. A confident man will take the initiative, and a man with initiative will make decisions. Decisions are the most important single action called for in any business.

D. Planning--Provides guidelines on which to base decisions over a period of time; provides goals and an end result to work toward.

E. Timing--Usually results from experience and training; creates a competitive advantage.

INTRODUCTION TO WORKSHOP
PLANNING, ORGANIZING, AND OPERATING YOUR OWN BUSINESS
UNIT I - FIRST SESSION

TEST

1. Match the terms on the right to the correct definition.

_____ a. A business operation which usually has little capital reserve

_____ b. A firm that buys finished goods for use by consumers adding place utility

_____ c. A gatherer of raw materials for creation of consumer and industrial products giving them useful form

_____ d. One which is independently owned and operated and not dominant in its field of operation

_____ e. A firm that distributes industrial and consumer goods

_____ f. Maintaining a profitable operation

_____ g. A firm that does not provide a consumable product for customers

1. Small business
2. Retail business
3. Service business
4. Wholesale business
5. Manufacturing business
6. Success
7. Shoestring operation

2. Describe in a short paragraph the purpose and intent of the unit packet.

3. Name four parts of a unit packet.

a.

b.

c.

d.

4. Name the four criteria for a business to be classified as small according to the Committee for Economic Development.

   a.

   b.

   c.

   d.

5. Describe the quantitative size classifications for each of the following types of small business as determined by the SBA.

   a. Retailers

   b. Wholesalers

   c. Manufacturers

   d. Service business

6. Identify which of the following are not considered general attributes of industries where small firms predominate.

   _____ Managerial experience requirements perceived as unimportant

   _____ Capital requirements low

   _____ Geographic market large

   _____ Technological requirements minimal

7. Name three reasons why small businesses are important to our economic system.

   a.

   b.

   c.

8. Briefly explain why risks of failure are greater for small businesses.

9. Name five general classifications of business failure.

   a.

   b.

   c.

   d.

   e.

10. The key element for small business success is ________________________.

11. Name three attributes of successful management.

    a.

    b.

    c.

12. The intent of the course format is to:

INTRODUCTION TO WORKSHOP
PLANNING, ORGANIZING, AND OPERATING YOUR OWN BUSINESS
UNIT I - FIRST SESSION

ANSWERS TO TEST

1. a. 7

   b. 2

   c. 5

   d. 1

   e. 4

   f. 6

   g. 3

2. To provide the skeletal details of the information discussed in the unit; color coded for ease of use; provided for convenience and use in and out of class.

3. a. Objectives

   b. Information sheets

   c. Job sheets

   d. Assignment sheets

4. a. Management is independent

   b. Capital supplied and ownership held by an individual or small group

   c. Area of operation localized

   d. Size small relative to the industry

5. a. Annual receipts do not exceed $1 million

   b. Annual receipts do not exceed $5 million

   c. Employs fewer than 250 persons

   d. Annual receipts do not exceed $1 million

6. __X__ Geographic market large

7. Three of the following
    a. One of few areas still open to individual effort and enterprise away from bureaucratic control
    b. Allows for better communications between owners and customers
    c. Allows for better communications between owners and employees
    d. Flexible in production, marketing and services to meet public demands
    e. Large firms dependent on small business for survival
8. a. Operate on a shoestring thus cannot afford mistakes
    b. Ease of entry into this form of business creates overcrowding and excess competition
    c. More susceptible to the pressures of economic fluctuations
9. Name five of the following:
    a. Personal factors
    b. Inadequate planning
    c. Inadequate financing
    d. Obsolete methods
    e. Multiplicity of duties
    f. Competitive factors
    g. Poorly qualified personnel
    h. Lack of technical research
    i. Decline of the industry
    j. Legal restrictions
    k. Taxation
10. Management

11. Name three of the following:

    a. Experience

    b. Knowledge

    c. Confidence

    d. Planning

    e. Timing

12. Briefly explain concepts necessary for successful business management in a concise way that will be useful and interesting

LOCATION
UNIT I - FIRST SESSION

UNIT OBJECTIVE

After completion of this unit, the participant should be able to name and describe the criteria for selection of a business location. This knowledge will be evidenced through demonstration and by scoring eighty-five percent on the unit evaluation.

SPECIFIC OBJECTIVES

After completion of this unit, the participant should be able to:

1. Match terms associated with selecting a location and site to the correct definition.
2. List three reasons why businessmen need to carefully evaluate their location and site choice.
3. Distinguish between the two parts of a location analysis: process and sequence.
4. Name five specific items to be considered during site evaluation.
5. Distinguish between convenience, shopping and specialty goods as they relate to site selection for retailers.
6. Name four location factors for retail firms.
7. Demonstrate in writing an ideal industrial mix.
8. Demonstrate in writing an ideal population mix.
9. Name the two time honored justifications for opening a new firm in an existing line of business.
10. List three sources of data (information) to be used in a location analysis.
11. Describe the five factors for site selection for a retail firm.
12. Identify those characteristics of a business that make a high- or low-rent location preferable.
13. Name the four important factors in determining manufacturing locations.

14. Name the one basic factor that restricts manufacturing and wholesaling locations in most communities.

15. Describe the preferred location for a wholesale operation.

16. Describe the most important location factor for a service business.

LOCATION
UNIT I - FIRST SESSION

INSTRUCTIONAL MATERIALS

I. Included in this unit

- A. Objectives
- B. Information sheet
- C. Transparency master #1--Carefully Evaluate Your Location
- D. Guide for Locating a Business

II. References

- A. Steinhoff. Small Business Management Fundamentals. New York: McGraw-Hill Book Company.
- B. Klatt. Small Business Management: Essentials of Entrepreneurship. Belmont, California: Wadsworth Publishing Company, Inc.
- C. Stegall-Steinmetz-Kline. Managing the Small Business. Homewood, Illinois: Richard D. Irwin, Inc.
- D. Pickle-Abrahamson. Small Business Management. Santa Barbara: California: John Wiley & Sons, Inc.

LOCATION
UNIT I - FIRST SESSION

INFORMATION SHEET

I. Terms and definitions

   A. Location--A region, state, county or city which represents the general market area for the planned firm.

   B. Site--The particular street, the corner, and the building within the location area.

   C. Convenience goods--Items sold through many outlets and usually have a low per unit price. They include such items as soft drinks, candy, gum, cigarettes.

   D. Shopping goods--Items sold through a selected number of outlets at a substantial per unit cost. They include such items as appliances, furniture and automobiles.

   E. Specialty goods--Items with a special or unique quality. Such items are not dependent on price because of their characteristics. These include such things as specific brands, jewelry, cameras, specialty foods, and art.

II. Businessmen need to carefully evaluate their location and site choice because: (Transparency #1)

   A. It is the single most important factor in initiating a small business

   B. Location places a financial burden on a business (overhead)

   C. Frequently the principal feature of the operation

   D. May require a long-term obligation and commitment

III. Location analysis is usually divided into two parts

   A. Process--what you do and why you do it. Deciding on the criteria for finding an appropriate location.

   B. Sequence--Order in which you examine and evaluate data. Movement through the data to determine choice.

IV. Specific items to be considered during a site evaluation

   A. Land (if vacant)

B. Land and buildings

C. Services and access

D. Transportation facilities

E. Zoning and site use

F. Supporting services

G. Costs

H. Carrying charges

V. Retailers should evaluate their location in relation to the type of goods they intend to offer

A. Convenience goods--Advertised nationwide and customers will buy them frequently. They give little thought to where they are purchased. Therefore, you must be where the people are.

B. Shopping goods--Because of the substantial cost of these goods, customers make both quality and cost comparisons before purchase. These goods usually require a concerted effort to sell so you may concentrate on advertising instead of location.

C. Specialty goods--Cost is not a factor because of the characteristics of the product. Customers are willing to go out of their way to purchase such goods.

VI. Location factors for a retail business

A. Industry

B. Population

C. Competition

D. Facilities

VII. The ideal industrial mix

A. Substantial permanent industry

B. Upward trend in payrolls

C. Diversified industry

D. Stability of industry

VIII. The ideal population mix

A. Growing and wealthy populations

B. Desire goods or services you propose to offer

C. Expanding population area

IX. Two time-honored justifications for opening a new firm in an existing line of business

A. Expanding market

B. Presence of inefficient firms

X. Sources of information to be used in a location analysis

A. Chamber of Commerce

B. Trade development associations

C. Industrial planning boards

D. Census information

E. Voting population figures

XI. Factors for site selection for a retail firm

A. Parking

B. Surrounding firms

C. Traffic density

D. "Going Home" site

E. "Sunny side" site

XII. Factors that make a high- or low-rent location preferable

A. Low-rent locations

1. Low merchandise turnover
2. Space needed for display of merchandise great
3. Have an established customer demand
4. Sell shopping goods
5. Other overhead expenses high
6. Business dependent on advertising and promotion

7.

B. High-rent locations

1. Window display important
2. High inventory turnover
3. Transient trade
4. Price appeal and convenience merchandise sold
5. High value merchandise compared to bulk
6. Little advertising or promotion

XIII. Factors in determining manufacturing locations

A. Shipping facilities

B. Buildings available for lease or rent

C. Distance from factory to market

D. Shipping costs

XIV. The basic factor that restricts manufacturing and wholesaling locations in most communities is ZONING

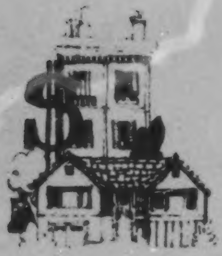
XV. The preferred location for a wholesale operation

A. Situated as close to the customer as possible

B. In a building suited to the operation

XVI. The most important location factor for a service business:

Know the type of customer to whom you plan to appeal and choose site to satisfy his needs



CAREFULLY EVALUATE YOUR LOCATION

IT IS THE SINGLE MOST IMPORTANT FACTOR IN INITIATING A SMALL BUSINESS

LOCATION YOU CHOOSE WILL PLACE A FINANCIAL BURDEN ON THE BUSINESS

FREQUENTLY THE PRINCIPAL FEATURE OF THE OPERATION

MAY REQUIRE A LONG-TERM OBLIGATION AND COMMITMENT

GUIDE FOR LOCATING A BUSINESS

Each factor in this guide should be rated with a plus (+) which would be a favorable vote for a specific site, a minus (-) which would be an unfavorable vote, or a zero (0) which would be neutral, not affecting the business either way. By rating the appropriate items, it is possible to develop a conceptual view of the suitability of alternative sites.

I. City or or town
    A. Economic considerations
        1. Industry
            a. Farming ____
            b. Manufacturing ____
            c. Trading ____

        2. Trend
            a. Highly satisfactory ____
            b. Growing ____
            c. Stationary ____
            d. Declining ____

        3. Permanency
            a. Old and well established ____
            b. Old and reviving ____
            c. New and promising ____
            d. Recent and uncertain ____

        4. Diversification
            a. Many and varied lines ____
            b. Many of the same type ____
            c. Few varied lines ____
            d. Dependent on one industry ____

        5. Stability
            a. Constant ____
            b. Satisfactory ____
            c. Average ____
            d. Subject to wide fluctuations ____

        6. Seasonality
            a. Little or no seasonal change ____
            b. Mild seasonal change ____
            c. Periodical--every few years ____
            d. Highly seasonal in nature ____

        7. Future
            a. Most promising ____
            b. Satisfactory ____
            c. Uncertain ____
            d. Poor outlook ____

- B. Population
  - 1. Income distribution
    - a. Mostly wealthy ____
    - b. Well distributed ____
    - c. Mostly middle income ____
    - d. Poor ____
  - 2. Trend
    - a. Growing ____
    - b. Large and stable ____
    - c. Small and stable ____
    - d. Declining ____
  - 3. Living status
    - a. Own homes ____
    - b. Pay substantial rent ____
    - c. Pay moderate rent ____
    - d. Pay low rent ____
- C. Competition
  - 1. Number of competing stores
    - a. Few ____
    - b. Average ____
    - c. Many ____
    - d. Too many ____
  - 2. Type of management
    - a. Not progressive ____
    - b. Average ____
    - c. Above average ____
    - d. Alert and progressive ____
  - 3. Presence of chains
    - a. No chains ____
    - b. Few chains ____
    - c. Average number ____
    - d. Many well established ____
  - 4. Type of competing stores
    - a. Unattractive ____
    - b. Average ____
    - c. Old and well established ____
    - d. Are many people buying out of community? ____
- D. The town as a place to live
  - 1. Character of the city
    - a. Are homes neat and clean or rundown and shabby? ____
    - b. Are lawns, parks, streets, etc., neat, modern, attractive? ____

c. Adequate facilities available
    1. Banking ______
    2. Transportation ______
    3. Professional services ______
    4. Utilities ______

2. Facilities and climate
    a. Schools ______
    b. Churches ______
    c. Amusement centers ______
    d. Medical and dental services ______
    e. Climate ______

II. The actual site
A. Competition
1. Number of independent stores of the same kind as yours
    a. Same block ______
    b. Same side of street ______
    c. Across street ______

2. Number of chain stores
    a. Same block ______
    b. Same side of street ______
    c. Across street ______

3. Kind of stores next door

4. Number of vacancies
    a. Same side of street ______
    b. Across street ______
    c. Next door ______

5. Dollar sales of nearest competitor

B. Traffic flow
1. Sex of pedestrians ______
2. Age of pedestrians ______
3. Destination of pedestrians ______
4. Number of passers-by ______
5. Automobile traffic count ______
6. Peak hours of traffic flow ______
7. Percent location of site ______

C. Transportation
1. Transfer points ______
2. Highway ______
3. Kind (bus, streetcar, auto, railway) ______

D. Parking facilities
1. Large and convenient ______
2. Large enough but not convenient ______
3. Convenient but too small ______
4. Completely inadequate ______

E. Side of street ________

F. Plant
  1. Frontage - in feet ________
  2. Depth - in feet ________
  3. Shape of building ________
  4. Condition ________
  5. Heat - type; air conditioning ________
  6. Light ________
  7. Display space ________
  8. Back entrance ________
  9. Front entrance ________
  10. Display windows ________

G. Corner location - if not, what is it? ________

H. Unfavorable characteristics
  1. Fire hazards ________
  2. Cemetery ________
  3. Hospital ________
  4. Industry ________
  5. Relief office ________
  6. Undertaker ________
  7. Vacant lot - no parking possibilities ________
  8. Garages ________
  9. Playground ________
  10. Smoke, dust, odors ________
  11. Poor side walls and pavement ________
  12. Unsightly neighborhood buildings ________

I. Professional men in block
  1. Medical doctors ________
  2. Dentists ________
  3. Lawyers ________
  4. Veterinarians ________
  5. Others ________

J. History of the site ________

Source: Small Business Administration, *Small Business Location and Layout*. Washington, D.C.: U.S. Government Printing Office.

LOCATION
UNIT I - FIRST SESSION

TEST

1. Match the terms on the right to the correct definition.

_____ a. Items sold through a selected number of outlets at a substantial per unit cost. They include such items as appliances.

_____ b. The particular street, corner, and building within an area.

_____ c. Items with a special or unique quality such as jewelry.

_____ d. Items sold through many outlets and usually have a low per unit price such as candy.

_____ e. A region, state, county or city which represents a general market area.

1. Location
2. Site
3. Convenience goods
4. Shopping goods
5. Specialty goods

2. List three reasons why businessmen need to carefully evaluate their location and site choice.

a.

b.

c.

3. Distinguish between the two parts of a location analysis, process and sequence by placing an "X" to the left of the definition for sequence.

_____ a. Order in which you examine and evaluate data

_____ b. Deciding on the criteria for finding an appropriate location

4. Name five specific items to be considered during site evaluation.

a.

b.

c.

d.

e.

5. Distinguish between convenience, shopping and specialty goods as they relate to site selection for retailers by writing the term in the appropriate blank.

   ________ a. Location must be where the people are

   ________ b. Customers are willing to go out of their way to purchase goods so location is not a major consideration

   ________ c. These goods usually require a concerted effort to sell so you may concentrate on advertising instead of location

6. Name four location factors for retail firms.

   a.

   b.

   c.

   d.

7. Briefly describe the components of an ideal industrial mix.

8. Briefly describe the components of an ideal population mix.

9. Name two time honored justifications for opening a new firm in an existing line of business.

   a.

   b.

10. List three sources of data to be used in a location analysis.

    a.

    b.

    c.

11. Briefly describe the following factors for site selection for a retail firm.

    a. Parking--

b. Surrounding firms--

c. Traffic density--

d. "Going Home" site--

e. "Sunny side" site--

12. Identify those characteristics of a business that make a high- or low-rent location preferable by placing an "X" to the left of the characteristics that make low-rent locations preferable.

_____ a. Low merchandise turnover

_____ b. Window display important

_____ c. Sell shopping goods

_____ d. Business dependent on advertising and promotion

_____ e. Space needed for display of merchandise great

_____ f. Transient trade

_____ g. Price appeal and convenience merchandise sold

_____ h. High inventory turnover

_____ i. Have an established customer demand

_____ j. High value merchandise compared to bulk

13. Name the four important factors in determining manufacturing locations

a.

b.

c.

d.

14. Name the one basic factor that restricts manufacturing and wholesaling locations in most communities

15. Briefly describe the preferred location for a wholesale operation.

16. Describe the most important location factor for a service business.

LOCATION
UNIT I - FIRST SESSION

ANSWERS TO TEST

1. a. 4
   b. 2
   c. 5
   d. 3
   e. 1
2. Reasons why businessmen need to carefully evaluate location and site choice
   a. Single most important factor in initiating business
   b. Location places a financial burden on business
   c. Frequently the principal feature of the operation
   d. May require long-term obligations
3. a
4. Specific items to be considered during site evaluations
   a. Land
   b. Land and buildings
   c. Services and access
   d. Transportation facilities
   e. Zoning and site use
   f. Supporting services
   g. Costs
   h. Carrying charges
5. a. Convenience
   b. Specialty
   c. Shopping

6. a. Industry
    b. Population
    c. Competition
    d. Facilities

7. Components of an ideal industrial mix
    a. Substantial permanent industry
    b. Upward trend in payrolls
    c. Diversified industry
    d. Stability of industry

8. Components of an ideal population mix
    a. Growing and wealthy populations
    b. Desire goods or services you propose to offer
    c. Expanding population area

9. a. Expanding market
    b. Presence of inefficient firms

10. Sources of data to be used in a location analysis
    a. Chamber of Commerce
    b. Trade development associations
    c. Industrial planning boards
    d. Census information
    e. Voting population figures

11. a. Traffic congestion discourages shoppers so access and ease of parking can substantially affect business
    b. Select a location near business that attracts the same kinds of customers
    c. Distinguish between automobile and pedestrian traffic. Try to determine whether this traffic is the type of people who shop for your type of goods.
    d. Most people stop to shop on the way home. If on the proper side, customer will not have to cross traffic.
    e. Not preferable as customers will gravitate to shade particularly in warm climates

12. a.

    c.

    d.

    e.

    i.

13. a. Shipping facilities

    b. Buildings available for lease or rent

    c. Distance from factory to market

    d. Shipping costs

14. Zoning

15. a. Situated as close to the customer as possible

    b. In a building suited to the operation

16. Know the type of customer to whom you plan to appeal and choose site to satisfy his needs

MARKET ANALYSIS, MARKETING TECHNIQUES AND METHODS
UNIT I - FIRST SESSION

UNIT OBJECTIVE

After completion of this unit, the participant should be able to describe the marketing concept, identify two broad strategies and four potential strengths of small business. He should be able to distinguish price competition from non-price competition and primary from secondary sources of marketing information. The participant should be able to distinguish between economic and non-economic pricing considerations and name five non-economic considerations. This knowledge will be evidenced through demonstration and by scoring eighty-five percent on the unit test.

SPECIFIC OBJECTIVES

After completion of this unit, the participant should be able to:

1. Match terms associated with Market Analysis, Marketing Techniques and Methods to the correct definition.
2. Name and discuss two basic elements of the marketing concept.
3. Distinguish between the marketing concept and marketing strategy.
4. Name and distinguish between two broad types of marketing strategy.
5. Identify and discuss three bases upon which a market may be segmented.
6. Name four advantages of segmenting a market.
7. Identify and describe four potential strengths of small business.
8. Identify, in terms of sales volume, the four stages in the life cycle of most products.
9. Name four factors to consider when adding or deleting a product.
10. Identify five factors that facilitate non-price competition.
11. List three areas in which marketing information is necessary.
12. Name and discuss two broad sources of marketing information.
13. Identify and discuss five ideas or findings from motivational research studies.
14. Identify and discuss four elements of economic based pricing.
15. Identify and discuss five elements of non-economic based pricing.

MARKET ANALYSIS, MARKETING TECHNIQUES AND METHODS
UNIT I - FIRST SESSION

SUGGESTED ACTIVITIES

I. Instructor:

   A. Provide participants with objective sheet.

   B. Provide participants with information and assignment sheets.

   C. Discuss unit and specific objectives.

   D. Discuss information and assignment sheets.

   E. Give test.

II. Participant:

   A. Read objectives.

   B. Study information sheet.

   C. Complete assignment sheet.

   D. Insure you can achieve each specific learning objective.

   E. Take test.

INSTRUCTIONAL MATERIALS

I. Included in this unit:

   A. Objectives

   B. Information sheets

   C. Transparency masters

      1. TM 1--Product Life Cycle

      2. TM 2--Why the Consumer Buys

   D. Assignment sheet--Discussion Items

   E. Test

II. References:

A. Baumback, Clifford M., Kenneth Lawyer and Pearce C. Kelly. *How to Organize and Operate a Small Business.* Englewood Cliffs, New Jersey: Prentice-Hall Inc., 1973.

B. Broom, H. N. and Justin G. Longenecker. *Small Business Management.* Cincinnati, Ohio: South-Western Publishing Company, 1975.

C. Klatt, Lawrence A. *Small Business Management: Essentials of Entrepreneurship.* Belmont, California: Wadsworth Publishing Company, Inc., 1973.

D. Stegall, Donald P., Lawrence Steinmetz and John B. Kline. *Managing the Small Business.* Homewood, Illinois: Richard D. Irwin, Inc., 1976.

MARKET ANALYSIS, MARKETING TECHNIQUES AND METHODS
UNIT I - FIRST SESSION

INFORMATION SHEET

I. Terms and definitions

A. Marketing concept--An approach to doing business that contends a business gains more by orienting itself outward toward the market and customers, than inward toward the product or business itself

B. Market--All customers who buy or may be induced to buy a product or service

C. Product--A total package of satisfaction or combination of attributes that will meet the needs of customers

D. Marketing--Those activities that bring about a market relationship between a business and consumer

E. Marketing strategy--A set of principles or decision rules that guide marketing activity in a way that most effectively meets customer needs or solves customer problems

F. Undifferentiated marketing--A strategy in which the business views the market as a homogeneous entity having common needs and characteristics

G. Market segmentation--A strategy in which the business views the market as being made up of market segments of meaningful buyer groups with unique characteristics and needs

H. Concentrated marketing--A strategy in which efforts are concentrated in only a few very profitable market segments (a variant of market segmentation)

I. Product line--A group of related products

J. Product life cycle--A concept that contends successful products go through roughly four recognizable stages during their existence

K. Image--Concerned with the attitude of customers toward a business--its reputation

L. Marketing research--Gathering, recording and analyzing of factual information relating to the transfer and sale of goods and services

M. Primary information--Information collected or generated through the marketing research efforts of the business itself

N. Secondary information--Information collected, compiled or published by sources outside the business

O. Price--A "yardstick" that measures values; when buyers and sellers agree, an exchange occurs

P. Elasticity of demand--Consumer sensitivity to changes in the price as measured by changes in demand (sales) for a product

II. Two basic elements of the marketing concept

A. Company-wide consumer orientation with long-run profit as a goal

1. Master of the market, not the product

2. Marketing is more than accomplishing basic functions such as buying, selling, storing, pricing, packaging and promoting

B. Product is viewed as a "total package"

1. Basic, plain product rarely sells itself

2. Consider style, color, service, availability, reputation and other related factors

III. Distinguishing features of a Marketing Strategy

A. A long-range, broad plan including overall goals and a way to achieve them

B. The need to adequately define your business--one's rationale for being in business

C. Factors affecting marketing strategy

1. Internal--such as resources, skilled personnel and owner's philosophy

2. External--such as government, competition and consumers

IV. Marketing strategies

A. Shotgun approach or undifferentiated marketing

1. Market is viewed as a whole with common needs, attitudes and characteristics

2. Utilize one or very few marketing programs to reach as many as possible

B. Market segmentation or differentiated marketing

  1. Market is viewed as being composed of submarkets or segments--each with unique needs and characteristics

  2. Marketing programs tailored to distinct, "meaningful buyer groups"

  3. Rationale: aggregate market is not homogeneous

V. Segmentation bases

  A. Geographic or locality

  B. Product line

  C. Customer needs, characteristics and attitude

    1. Volume of purchases

    2. Timing of purchase

    3. Age

    4. Income

    5. Occupation

    6. Many others

VI. Advantages of segmentation

  A. Clear definition of target market

  B. Efficient utilization of resources and focus of marketing effort

  C. Product offering attuned to customer needs

  D. Increased sensitivity to change and opportunity

VII. Potential strengths of small business

  A. Flexibility/Adaptability

    1. Owner/manager can meet change with on-the-spot decisions

    2. Large business may miss opportunities due to large fixed investment and complex hierarchies of organization

  B. Closeness to and knowledge of the market

    1. Work directly with customer

    2. Operate in a narrow segment of market

C. Big business needs small business

1. Suppliers and customers

2. Specialty and service businesses are impractical for big business

D. Future increase in "service" sector of economy

VIII. Product life cycle (Transparency #1)

A. Introduction

1. Low initial acceptance

2. Aggressive promotion results in substantial sales increases

B. Growth

1. Sales increasing but at a slower rate

2. Competition intensifies

C. Maturity

1. Sales peak out and begin to decline

2. Consider dropping product

D. Decline (rapid)

IX. Factors to consider in adding or deleting a product

A. Relationship to existing product lines

B. Cost to develop and introduce

C. Product profitability analysis

D. Reaction of competition

X. Factors facilitating non-price competition

A. Personalized, friendly atmosphere

B. Fast, efficient customer service

C. Special delivery arrangements

D. Stamps, bonus gifts, contests

E. Liberal return-goods policy

F. Warranty offered

G. Credit terms

XI. Utilizing marketing information

  A. Operating data -- sales and costs

  B. Consumer information

  C. Competition

XII. Sources of marketing information

  A. Primary information

    1. Collected or generated by business itself

    2. Unpublished data

    3. Examples: customer files and accounts, surveys and questionnaires

  B. Secondary information

    1. Collected, generated or published by other sources

    2. May be general-purpose in nature but economical and accurate

    3. Examples: government reports, trade association data, almanacs, local newspapers

XIII. Findings in customer motivation research

  A. Customer behavior is a function of attitude and perceptions, as well as facts

  B. Physical sensations frequently trigger purchases

  C. Image is important and real

  D. Motivation is subtle and complex (Transparency #2)

  E. Shopper's vision phenomenon

    1. Limited field of vision

    2. Impulse items should be at eye level

    3. Brightly/uniquely packaged and ostensively new product is appealing

XIV. Economic considerations in pricing the product

  A. Examine total costs from several perspectives

    1. Cost of goods sold, selling expenses and general expenses

2. Divide total costs into their fixed and variable elements

a. Fixed costs are constant as sales volume changes

b. Variable costs vary as sales volume varies

B. Break-even analysis

1. Determine where total costs and total revenues are equal

2. Determine costs and profits at various levels of sales

C. Markups

1. Insure some average gross margin

2. Relate markup to turnover

D. Return on investment of time and money

XV. Non-economic considerations in pricing the product

A. Uniqueness of the total product offering

B. Consistency with marketing and pricing strategy

1. Established price lines

2. "Life stage" of product

3. Sales volume goals

C. Going rate or market established price

D. Elasticity of demand

E. Type of product

1. Convenience good

a. Widely distributed

b. Fast moving

c. Low markup

2. Shopping good

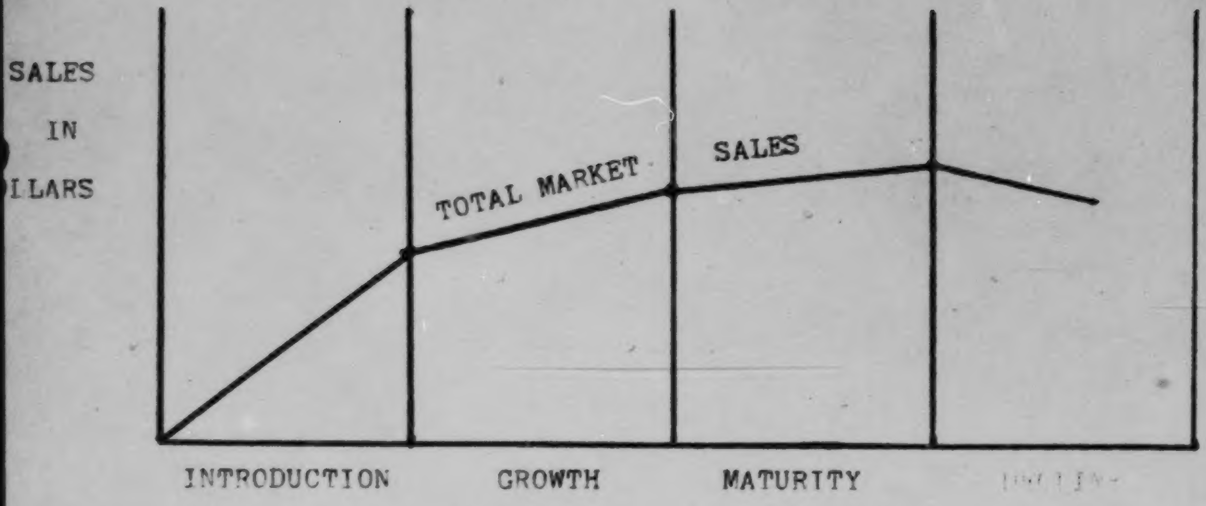
a. Non-standardized

b. Consumers seek out and discriminate

c. Higher markup

3. Specialty or fashion good
    a. Unique characteristics
    b. Unpredictable market
    c. High markup to allow for risk

PRODUCT LIFE CYCLE



WHY THE CONSUMER BUYS

PRODUCT	APPARENT REASONS	UNCONSCIOUS/SUBTLE REASONS
House	Shelter	Prestige and Recognition
Automobile	Transportation	Safety, Status, Economy
Toothpaste	Prevent Decay	Fresh Breath, Security, Affiliation
Convenience Foods	Nutrition	Fast Preparation, Variety
Stereo Equipment	Entertainment	Status, Relaxation

MARKET ANALYSIS, MARKETING TECHNIQUES AND METHODS
UNIT I - FIRST SESSION

ASSIGNMENT SHEET - DISCUSSION ITEMS

Instructions: Respond to the questions below taking the position of an owner-manager of one of the following type businesses:

A. Restaurant
B. Service Station
C. Florist Shop
D. Hardware Store
E. Automobile Dealer

1. How would you compete on a basis other than price?

2. How would you apply the marketing concept in your business?

3. In what ways could you segment your market?

MARKET ANALYSIS, MARKETING TECHNIQUES AND METHODS
UNIT I - FIRST SESSION

TEST

Match the following terms with the definitions listed below.

a. image

b. market

c. primary information

d. concentrated marketing

e. price

f. product

g. product life cycle

h. undifferentiated marketing

i. marketing

j. secondary information

k. elasticity of demand

l. marketing strategy

m. product line

n. marketing concept

o. market segmentation

p. marketing research

_____ 1. An approach to doing business that contends a business gains more by orienting itself outward toward the market and customers, than inward toward the product or business itself.

_____ 2. All customers who buy or may be induced to buy a product or service.

_____ 3. A total package of satisfaction or combination of attributes that will meet the needs of customers.

_____ 4. Those activities that bring about a market relationship between a business and consumer.

_____ 5. A set of principles or decision rules that guide marketing activity in a way that most effectively meets customer needs or solves customer problems.

_____ 6. A strategy in which the business views the market as a homogeneous entity having common needs and characteristics.

_____ 7. A strategy in which the business views the market as being made up of market segments of meaningful buyer groups with unique characteristics and needs.

_____ 8. A strategy in which efforts are concentrated in only a few very profitable market segments (a variant of market segmentation).

_____ 9. A group of related products.

_____ 10. A concept that contends successful products go through roughly four recognizable stages during their existence.

_____ 11. Concerned with the attitude of customers toward a business--its reputation.

_____ 12. Gathering, recording, and analyzing of factual information relating to the transfer and sale of goods and services.

_____ 13. Information collected or generated through the marketing research efforts of the business itself.

_____ 14. Information collected, compiled or published by sources outside the business.

_____ 15. A "yardstick" that measures values; when buyers and sellers agree, an exchange occurs.

_____ 16. Consumer sensitivity to changes in the price as measured by changes in demand (sales) for a product.

17. Identify five factors that facilitate non-price competition.

a. ______________________________

b. ______________________________

c. ______________________________

d. ______________________________

e. ______________________________

18. According to the marketing concept, where should emphasis be placed?

a. on the product

b. on efficient utilization of resources

c. on the consumer

d. on advertising

19. Determining broad, long-range goals and a means of achieving them is most descriptive of:

a. the marketing concept

b. a marketing strategy

c. segmentation

d. marketing research

20. Which of the following are potential strengths of small business:

    a. rigid structure

    b. big business needs small business

    c. far removed from the consumer

    d. an emphasis on manufacturing in the future

21. Why might a business segment its market:

    a. product offering better meets customer needs

    b. clear definition of target market

    c. efficient utilization of scarce resources

22. Which of the following is a noncost-based item to consider in establishing prices?

    a. markup based on cost

    b. determining "fixed" portion of costs

    c. break-even analysis

    d. going rate established in market place

23. Briefly identify two ideas or findings from motivational research studies.

    a. ______________________________

    ____

    b. ______________________________

    ____

24. Market segmentation is a strategy which assumes the total market:

    a. has common needs, attitudes and characteristics

    b. can be broken down into groups of customers with unique needs and characteristics

25. Sales volume peaks out during what stage of a product's life cycle?

    a. growth

    b. introduction

    c. maturity

    d. decline

26. Valuable marketing information may be available in a business's customer files and invoices. This type of information is called:

    a. secondary

    b. primary

27. In which areas do we need marketing information?

    a. operating data

    b. consumer information

    c. competition

    d. all the above

28. One of the following represents an economic consideration in pricing which identifies variable, fixed and total costs as well as total revenues. Which one is it?

    a. return-on-investment

    b. markup based on cost

    c. elasticity of demand

    d. break-even analysis

29. List two bases upon which a market may be segmented.

    a. ______________________________

    b. ______________________________

MARKET ANALYSIS, MARKETING TECHNIQUES AND METHODS
UNIT I - FIRST SESSION

ANSWERS TO TEST

1. n
2. b
3. f
4. i
5. l
6. h
7. o
8. d
9. m
10. g
11. a
12. p
13. c
14. j
15. e
16. k
17. Identify five of the following factors that facilitate non-price competition:

    personalized, friendly service
    special delivery/transportation arrangements
    warranty
    credit terms
    image
    location
    hours
    parking
    product lines

18. c
19. b

20. b

21. a, b, and c

22. d

23. Identify two of the following ideas or findings from motivational research studies:

    Customer behavior is a function of attitude and perception, as well as facts
    Physical sensations trigger purchases
    Image is important and real
    Motivation is subtle and complex
    Shopper's vision phenomenon

24. b

25. c

26. b

27. d

28. d

29. List two bases upon which a market may be segmented:

    Territory/geographic
    Product
    Consumer characteristics
      Volume
      Timing
      Age
      Income
      Occupation

WORKING CAPITAL AND CASH FLOW
UNIT I - SECOND SESSION

UNIT OBJECTIVE

After completion of this unit, the participant should be able to explain how to determine the working capital requirements of a successful business operation as it relates to cash, inventories and receivables. He should further be able to implement various management techniques to ensure these needs are met. Finally, he should be able to prepare a cash flow statement to predict future cash requirements. This knowledge will be evidenced through demonstration and by scoring eighty-five percent on the unit test.

SPECIFIC OBJECTIVES

After completion of this unit, the participant should be able to:

1. Match terms associated with working capital and cash flow to correct definitions.
2. Name the three components usually associated with working capital.
3. Identify when a reservoir of cash will be needed to handle day-to-day operations.
4. Name three factors affecting the amount of cash on hand to handle operations.
5. Discuss why new businesses in particular and most small businesses in general should establish a generous cash reserve.
6. Identify the basic tool used in forecasting discrepancies between receipts and expenditures.
7. Explain how credit standing affects cash requirements.
8. Name the two objectives of financial management.
9. List the three steps involved in successful financial management.
10. Construct a diagram showing the regular and intermittent flows of cash through a business.
11. Describe how we determine earning power.
12. Name two reasons why good inventory management is essential.

13. Explain how the necessary investment in inventory can be determined.

14. Name the four types of costs associated with inventory management.

15. List two problems management must face in determining the best inventory level.

16. Describe two ways management can evaluate its inventory policy.

17. List two factors affecting the amount of investment required to support a credit program.

18. Explain how credit sales affect working capital.

19. List the three areas of control of receivables that management should try to handle.

20. Explain why it is difficult to administer a credit program.

WORKING CAPITAL AND CASH FLOW
UNIT I - SECOND SESSION

INSTRUCTIONAL MATERIALS

I. Included in this unit:

  A. Objectives

  B. Information sheet

  C. Transparency masters

    1. TM 1--The Flow of Cash in the Business Firm

    2. TM 2--The Relationships that Determine the Earning Power of a Firm

    3. TM 3--Merchandise Inventory

    4. TM 4--Cash Flow Statements

  D. Job sheet #1--Cash Flow Statements

  E. Test

II. References

  A. Stegall-Steinmetz-Kline. Managing the Small Business. Homewood, Illinois: Richard D. Irwin, Inc.

  B. Steinhoff. Small Business Management Fundamentals. New York: McGraw-Hill Book Company.

  C. Pickle-Abrahamson. Small Business Management. Santa Barbara, California: John Wiley & Sons, Inc.

  D. Baumback-Lawyer-Kelley. How to Organize and Operate a Small Business. Englewood Cliffs, New Jersey: Prentice-Hall.

  E. Klatt. Small Business Management: Essentials of Entrepreneurship. Belmont, California: Wadsworth Publishing Company, Inc.

  F. Broom-Longenecker. Small Business Management. Cincinnati, Ohio: South-Western Publishing Co.

WORKING CAPITAL AND CASH FLOW
UNIT I - SECOND SESSION

INFORMATION SHEET

I. Terms and definitions

   A. Working capital--Cash and near cash assets usually consisting of receivables and inventory

   B. Current assets--Those assets that are readily converted to cash

   C. Current liabilities--Those debts that must be paid within the current year

   D. Fixed or plant assets--Long-term capital outlay for equipment, fixtures, buildings, etc. The cost of which is recovered over long periods of time

   E. Long-term liabilities--Those debts to be paid over long periods of time such as a mortgage

   F. Depreciation--Internal transactions not directly affecting cash flows but which recognize reduction in the value of fixed assets

   G. Cash--A reservoir of cash on hand to handle day-to-day operations

   H. Inventory--Stock of merchandise and/or materials maintained for sale to customers or production of finished goods

   I. Receivables--Those amounts representing the total credit sales to customers which have not been collected

   J. Inventory turnover--The average number of times that inventory is replaced during a given period which is usually one year. Determined by dividing the cost of goods sold by the average inventory at cost.

   K. Lead time--The length of time required to replace inventory from the time order is placed until receipt of goods

   L. Cash flow--The movement of money through a business from sources such as cash sales through expenditures for such items as rent and utilities, and additional inventories

   M. Cash budget--A systematic prediction of future cash flows based on expected levels of sales. Concerned with short-term needs only

   N. Operating assets--Current assets plus fixed assets

II. Although accountants define working capital as the difference between total current assets and total current liabilities, businessmen usually associate it with the following:

   A. Cash

   B. Inventories

   C. Receivables

III. Business must provide reservoir of cash to handle day-to-day operations

   A. Receipts and expenditures of cash rarely, if ever synchronized

   B. If receipts exceed expenditures, the surplus can be invested temporarily to meet future needs

   C. However, if expenditures exceed receipts, there must be cash available to handle operations

IV. Factors affecting the amount of cash on hand needed for daily operations

   A. Sales volume

   B. Credit terms

   C. Paying habits of customers

   D. Expected cash outlays

   E. Unexpected cash outlays

V. Businesses should establish a generous cash reserve to cover the unexpected and unanticipated expenditures that may arise

   A. For new businesses it may take some time to arrive at necessary sales volume to cover expenditures

   B. If slump in the economy occurs, volume will be reduced which could mean that receipts will not cover expenditures

   C. There is a tendency to invest a disproportionate amount of capital in fixed assets which are difficult to convert to cash

VI. The basic tool to use for forecasting or predicting discrepancies between receipts and expenditures is the cash budget.

VII. Size of the cash balance needed to meet expenditures will depend somewhat on the availability of funds from outside sources

   A. As a general rule, the better the credit standing, the smaller the amount of cash on hand necessary at any one time

   B. Thus, good cash management involves establishment and maintenance of a good credit rating

VIII. The two objectives of financial management include:

  A. An adequate flow of cash available to pay bills as they come due

  B. Make the business as profitable as possible.

IX. The three step process for successful financial management

  A. Careful planning of future needs for funds both short-term and long-term through maintenance of a budget system

  B. Acquiring the needed funds from the most economical mix of sources

  C. Control-comparing budgeted and actual figures to provide insight for improving in the future

X. Cash is the common denominator of all transactions. Thus, special attention is paid to the cash reservoir or cash account of a business (Transparency #1)

  A. Flows into the firm usually come from two sources

    1. Owners

    2. Creditors

  B. Cash may also flow in when needed from the liquidation of short-term securities

    1. These represent temporary employment of idle funds forecasted to be needed at some future date

    2. Cash may flow other way when excess cash is available

  C. Within the business there is a regular flow of cash through the working capital

  D. Two other outflows also occur

    1. Fixed assets

    2. Intermittent outflows to parties outside business

XI. Earning power is the return per dollar of operating assets each time it goes through the cash flow cycle coupled with the number of times this cycle is completed during the year. (Transparency #2)

XII. Inventory management is essential because it represents such a large capital investment. It is also difficult to convert into ready cash meaning that errors in judgment are not readily corrected.

XIII. Determining the necessary investment in inventory

   A. New business must use subjective analysis

      1. Determine a reasonable and attractive selection of items to offer

      2. Next estimate the sales for each item

      3. Select suppliers who will be able to offer guidance

   B. Established businesses should rely on historical data as well as subjective analysis to determine inventory levels

      1. Inventory turnover

      2. Lead time

XIV. Costs associated with inventory management (Transparency #3)

   A. Costs associated with inventory

   B. Costs associated with space occupied

   C. Inventory service costs

   D. Costs associated with risk

XV. There are a number of judgment problems associated with the determination of inventory level from a management standpoint

   A. Quantities that are most economical to buy

   B. The cost of being out of stock as compared with the cost of maintaining a safety stock

   C. If merchandise is seasonal, the lead time may be critical

   D. Overstocking means markdowns or carry over

XVI. Management can evaluate its inventory policy

   A. Inventory turnover

   B. Regular check of inventory to determine stockouts, obsolescence, spoilage, etc.

   C. Compare actual with planned performance to improve future forecasts

XVII. Factors affecting the amount of investment required to support a credit program

   A. Proportion of cash and credit sales to total sales

   B. Terms of payment offered

C. Seasonality of sales

D. Changes in general business conditions

XVIII. Credit sales can have a devastating effect on working capital which may ultimately result in business failure

A. As credit sales increase, working capital available to replenish inventories decreases

B. As inventories decline we affect customer satisfaction and sales decline

XIX. Three areas of management control of receivables

A. Level

B. Acquisition

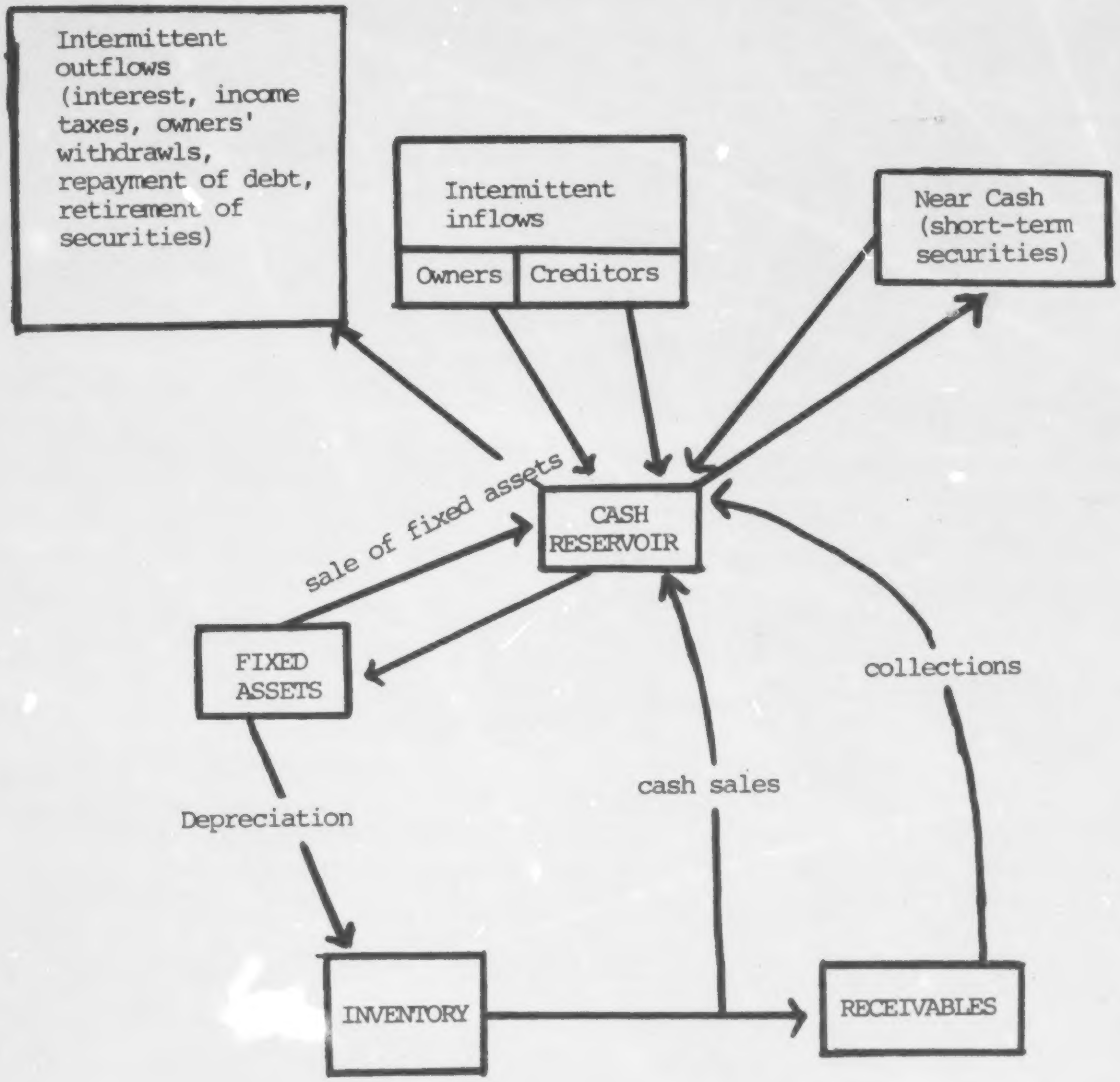
C. Collections

XX. It is difficult to administer a credit program

A. If too restrictive, you sacrifice sales

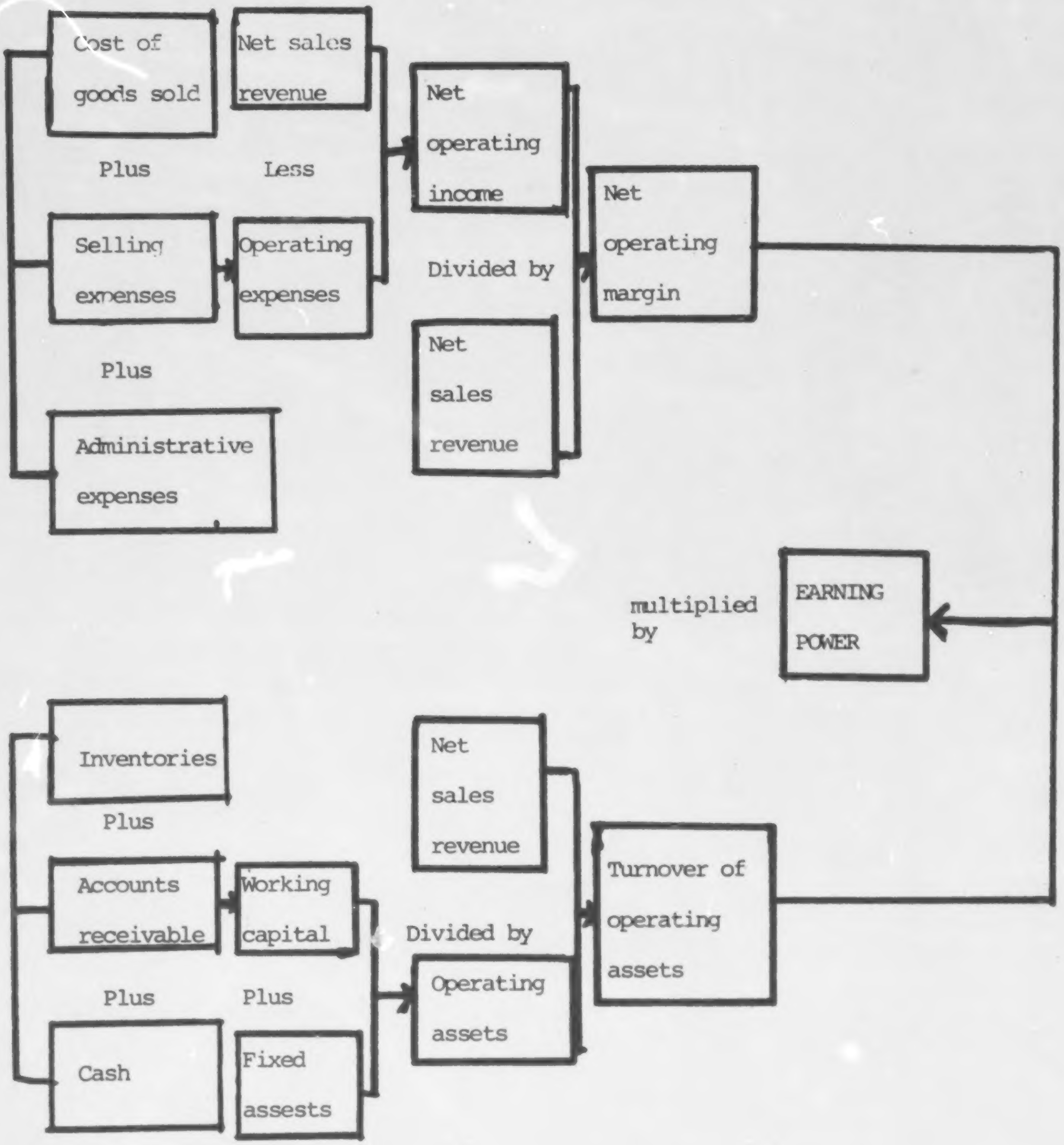
B. If too lenient, you increase bad debts to unacceptable levels

THE FLOW OF CASH IN THE BUSINESS FIRM


Intermittent outflows (interest, income taxes, owners' withdrawls, repayment of debt, retirement of securities)
Intermittent inflows
Owners
Creditors
Near Cash (short-term securities)
sale of fixed assets
CASH RESERVOIR
FIXED ASSETS
collections
cash sales
Depreciation
INVENTORY
RECEIVABLES

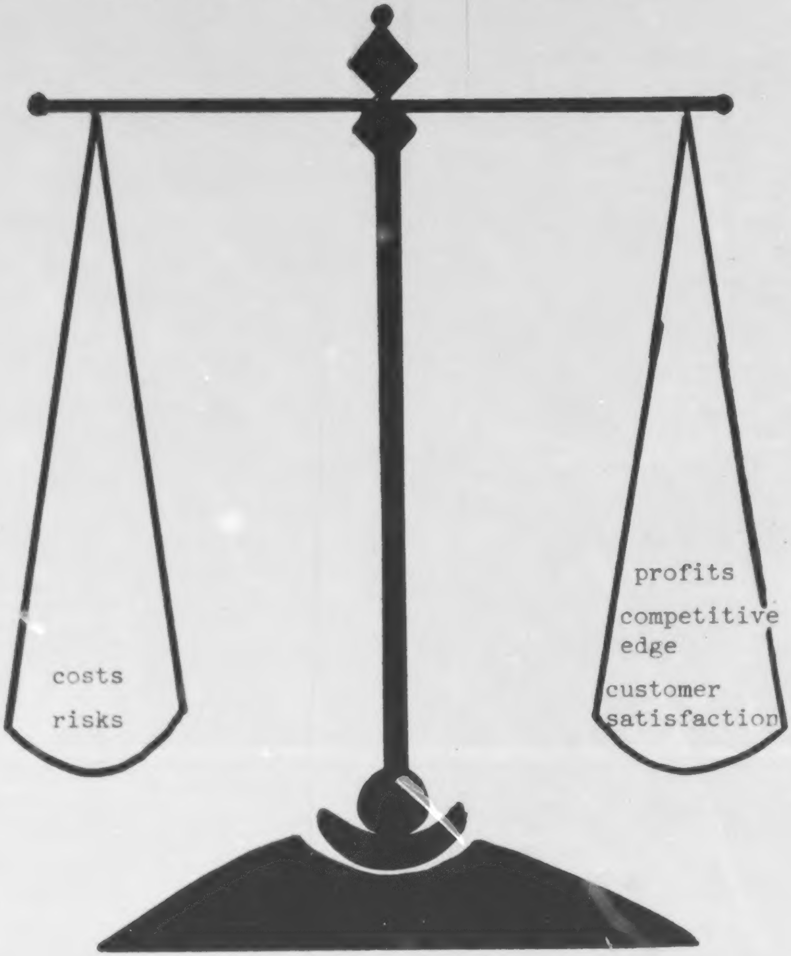
Source: Stegall-Steinmetz-Kline. Managing the Small Business. Homewood, Illinois: Richard D. Irwin, Inc.

THE RELATIONSHIPS THAT DETERMINE THE EARNING POWER OF A FIRM


Cost of goods sold
Net sales revenue
Plus
Less
Net operating income
Selling expenses
Operating expenses
Divided by
Net operating margin
Plus
Net sales revenue
Administrative expenses
multiplied by
EARNING POWER
Inventories
Net sales revenue
Plus
Accounts receivable
Working capital
Divided by
Turnover of operating assets
Plus
Plus
Operating assets
Cash
Fixed assests

Source: Stegall-Steinmetz-Kline. Managing the Small Business. Homewood, Illinois: Richard D. Irwin, Inc.

MERCHANDISE INVENTORY


costs
risks
profits
competitive edge
customer satisfaction

As inventory levels increase, a point is eventually reached where the additional costs outweigh the additional benefits.

Table 24-3 Cash Flow Statements
(The estimated figures (typed) are projected for a full year; the actual figures have been inserted for 3 months only.)

CASH FLOW STATEMENT - MILLER'S AUTO SUPPLY - 1976

	JANUARY		FEBRUARY		MARCH		APRIL		OMITTED MONTHS	DECEMBER		YEARLY TOTALS	
	Estimated	Actual	Estimated	Actual	Estimated	Actual	Estimated	Actual		Estimated	Actual	Estimated	Actual
1. Cash on Hand, 1st of Month	$5000	$5,000	$3400	$4,025	$2400	$2,625	$1975	$1,900		$3700			
2. Cash Receipts During Month													
a. Cash Sales	3000	3,500	3500	4,000	4000	4,200	4000			8000		72,600	
b. Payments on Accounts Receivable	1800	2,000	2000	2,000	2400	2,200	2400			4000		32,000	
c. Bank Loans	0	0	0	0	0	0	0			0		6,000	
d. Other Sources (list)	0	0	0	0	0	0	0			0		0	
3. Total Cash Receipts	4800	5,500	5500	6,000	6400	6,400	6400			12000		110,600	
4. Cash Available During Month	9800	10,500	8900	10,025	8800	9,025	8375			15700			
5. Cash Outlays for Month													
a. For Merchandise	1200	1,500	1200	2,000	1500	1,800	1500			4500		49,000	
b. For Wages & Salaries	3600	3,600	3600	3,600	3600	3,600	3600			4600		31,000	
c. Payroll Expenses	100	100	100	100	100	100	100			150		1,000	
d. Rent	400	400	400	400	400	400	400			400		4,800	
e. Utilities	100	125	100	150	100	150	100			200		1,600	
f. Insurance	50	50	50	50	50	50	50			50		600	
g. Interest	0	0	0	0	0	0	0			0		100	
h. Repairs & Mtce.	0	50	0	100	100	50	100			100		1,000	
i. Advertising	100	200	100	200	100	100	100			200		2,000	
j. Supplies	75	75	75	200	100	200	100			200		2,100	
k. Delivery Expenses	150	150	150	150	150	150	150			250		2,200	
l. Taxes	25	25	25	25	25	25	25			25		300	
m. Misc. Expenses	100	150	200	125	100	200	100			200		1,800	
n. Other Expenses (list)	0	50	0	0	0	0	0			0		300	
Total Mdse. & Opr. Exp.	5900	6,475	6000	7,100	6325	6,825	6325			10875		98,600	
Loan Repayments	0	0	0	0	0	0	0			0			
Withdrawals	500	300	500	300	500	300	500			500		6,000	
Equipment Purchases	0	0	0	0	0	0	0			0			
6. Total Cash Paid Out	6400	6,775	6500	7,400	6825	7,125	6825			11375		104,600	
7. Cash Balance End of Month	3400	4,025	2400	2,625	1975	1,900	1550			4325		6,000	

Source: Steinhoff. Small Business Management Fundamentals. New York: McGraw-Hill Book Company, p. 263.

WORKING CAPITAL AND CASH FLOW
UNIT I - SECOND SESSION

JOB SHEET #1--CASH FLOW STATEMENT

The following is a suggested procedure for maintenance of a cash budget based on an accurate estimate of future sales. It is an invaluable tool for management control and analysis of cash requirements. It is designed to estimate future cash receipts, outlays and balances which can be compared with actual results. (Transparency #4)

I. Materials and equipment needed

   A. Paper, typewriter, pen or pencil

   B. Multicolumn work sheet (at least 14 columns)

   C. Financial records for previous periods (one to three years)

   D. Calculator

II. Procedure

   A. Estimate sales for some future period of time, usually one year. This should be based on past experience, current conditions and future expectations. It is essential that this be as accurate as possible as it affects the remaining data in the statement.

      1. Internal factors to consider would include historical information on past sales, in particular product lines.

      2. External factors to consider

         a. Effects of price changes on sales

         b. Advertising efforts

         c. Quality of goods to be sold

         d. Adding of product lines

         e. Competition and business conditions

   B. List all receipts and expenditures of cash

      1. Separate into two columns

2. Subclassify each column into variable or fixed receipts or expenditures
    a. Fixed if not affected by changes in sales volume
    b. Variable if amounts change as sales volume changes

C. For those items that you have classified as variable, you will need to establish a relationship (ratio) to sales.

1. Compare financial data from previous year(s)
    a. Total sales--both annual and monthly
    b. Total receipts and expenditures for each item to be included on your list--both annual and monthly
2. For those items (receipts and expenditures) that you have classified as variable, determine its relationship (ratio) to sales. Example:

$$\frac{\text{Cash sales}}{\text{Total sales}} = \text{Ratio}$$

D. Using the gathered data, it is now possible to forecast future cash requirements and record them on a work sheet

1. Prepare a form similar to that illustrated on p. 15 allowing space for beginning and ending cash balances and totals
2. Insert the amounts for those receipts and expenditures that you have designated as fixed
3. Using the ratios established in "C" above and the sales estimate established in "A", you can determine estimated variable receipts and expenditures. All you have to do is multiply the ratio times the estimated sales

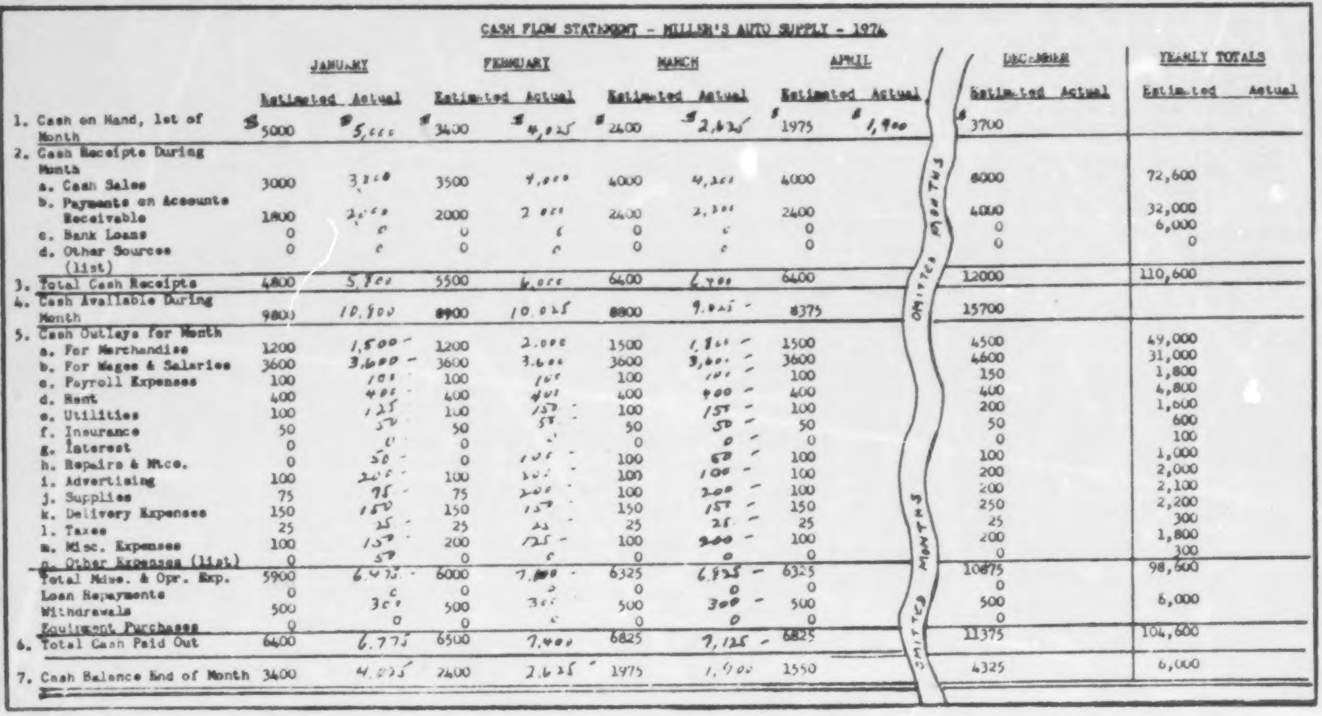
E. As the year progresses, you should then insert actual data for each of the categories

1. Compare predicted with actual data as a base for improving future performance
2. Disparities merit close attention as adverse trends can be detected early and possibly corrected by management decision.

F. Remember all estimates should be completed for a year in advance of their use

III. Diagram of procedure

Table 24-3 Cash Flow Statements
(The estimated figures (typed) are projected for a full year; the actual figures have been inserted for 3 months only.)



CASH FLOW STATEMENT - MILLER'S AUTO SUPPLY - 1974

	JANUARY		FEBRUARY		MARCH		APRIL			DECEMBER		YEARLY TOTALS	
	Estimated	Actual	Estimated	Actual	Estimated	Actual	Estimated	Actual		Estimated	Actual	Estimated	Actual
1. Cash on Hand, 1st of Month	$5000	$5,000	$3400	$4,025	$2400	$2,625	$1975	$1,900		$3700			
2. Cash Receipts During Month									OMITTED MONTHS				
a. Cash Sales	3000	3,900	3500	4,000	4000	4,200	4000			8000		72,600	
b. Payments on Accounts Receivable	1800	2,000	2000	2,000	2400	2,200	2400			4000		32,000	
c. Bank Loans	0	0	0	0	0	0	0			0		6,000	
d. Other Sources (list)	0	0	0	0	0	0	0			0		0	
3. Total Cash Receipts	4800	5,900	5500	6,000	6400	6,400	6400			12000		110,600	
4. Cash Available During Month	9800	10,900	8900	10,025	8800	9,025	8375			15700			
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d. Rent	400	400	400	400	400	400	400			400		4,800	
e. Utilities	100	125	100	150	100	150	100			200		1,600	
f. Insurance	50	50	50	50	50	50	50			50		600	
g. Interest	0	0	0	0	0	0	0			0		100	
h. Repairs & Mtce.	0	50	0	100	100	50	100			100		1,000	
i. Advertising	100	200	100	300	100	100	100			200		2,000	
j. Supplies	75	75	75	200	100	200	100			200		2,100	
k. Delivery Expenses	150	150	150	150	150	150	150			250		2,200	
l. Taxes	25	25	25	25	25	25	25			25		300	
m. Misc. Expenses	100	150	200	125	100	200	100			200		1,800	
n. Other Expenses (list)	0	50	0	0	0	0	0		OMITTED MONTHS	0		300	
Total Mdse. & Opr. Exp.	5900	6,475	6000	7,100	6325	6,825	6325			10875		98,600	
Loan Repayments	0	0	0	0	0	0	0			0			
Withdrawals	500	300	500	300	500	300	500			500		6,000	
Equipment Purchases	0	0	0	0	0	0	0			0			
6. Total Cash Paid Out	6400	6,775	6500	7,400	6825	7,125	6825			11375		104,600	
7. Cash Balance End of Month	3400	4,025	2400	2,625	1975	1,900	1550			4325		6,000	

Source: Steinhoff. Small Business Management Fundamentals. New York: McGraw Hill Book Company, p. 263.

WORKING CAPITAL AND CASH FLOW
UNIT I - SECOND SESSION

TEST

1. Match the terms on the right to the correct definition.

___ a. Those amounts representing the total credit sales to customers which have not been collected.

___ b. A reservoir of cash on hand to handle day-to-day operations.

___ c. Those assets that are readily converted to cash.

___ d. Those debts to be paid over long periods of time such as a mortgage.

___ e. A systematic prediction of future cash flows based on expected levels of sales.

___ f. Stock of merchandise and/or materials maintained for sale to customers or for production.

___ g. Cash and near cash assets.

___ h. The movement of money through a business.

___ i. Those debts that must be paid within the current year.

___ j. The average number of times that inventory is replaced during a given period of time.

1. Working capital
2. Current assets
3. Current liabilities
4. Fixed assets
5. Long-term liabilities
6. Depreciation
7. Cash
8. Inventory
9. Receivables
10. Inventory turnover
11. Lead time
12. Cash flow
13. Cash budget
14. Operating assets

2. Name the three components usually associated with working capital.

a.

b.

c.

3. Identify the situation when a reservoir of cash will be needed to handle day-to-day operations by placing as "X" to the left of the appropriate statement.

   _____ a. Receipts and expenditures are predictable and usually occur in equal amounts concurrently.

   _____ b. Expenditures exceed receipts.

   _____ c. Receipts exceed expenditures.

4. Name three factors affecting the amount of cash on hand to handle operations.

   a.

   b.

   c.

5. Briefly explain why new businesses in particular and most small businesses in general should establish a generous cash reserve.

6. Name the basic tool used in forecasting discrepancies between receipts and expenditures.

7. Briefly explain how credit standing affects cash requirements.

8. Name the two objectives of financial management.

   a.

   b.

9. List the three steps involved in successful financial management.

   a.

   b.

   c.

10. Construct a diagram showing the regular and intermittent flows of cash through a business.

11. Briefly describe how we determine earning power.

12. Name two reasons why good inventory management is essential.

    a.

    b.

13. Explain how a new business would determine the necessary investment in inventory.

14. Name the four types of costs associated with inventory management.

    a.

    b.

    c.

    d

15. List two problems management must face in determining the best inventory level.

    a.

    b.

16. Describe two ways management can evaluate its inventory policy.

    a.

    b.

17. List two factors affecting the amount of investment required to support a credit program.

    a.

    b.

18. Explain briefly how credit sales affect working capital.

19. List the three areas of control of receivables that management should try to handle.

    a.

    b.

    c.

20. Explain why it is difficult to administer a credit program.

WORKING CAPITAL AND CASH FLOW
UNIT I - SECOND SESSION

ANSWERS TO TEST

1. a. 9
   b. 7
   c. 2
   d. 5
   e. 13
   f. 8
   g. 1
   h. 12
   i. 3
   j. 10
   k. 4
   l. 6
   m. 11
   n. 14

2. Three components usually associated with working capital
   a. cash
   b. inventory
   c. receivables

3. b

4. Three factors affecting the amount of cash on hand to handle operations.
   a. Sales volume
   b. Credit terms
   c. Paying habits of customers
   d. Expected cash outlays
   e. Unexpected cash outlays
5. Why business should establish a generous cash reserve
   a. It may take some time to arrive at necessary sales volume to cover expenditures
   b. If slump in the economy occurs volume will be reduced which could mean that receipts will not cover expenditures
6. Cash budget
7. Explain how credit standing affects cash requirements.
   a. As a general rule, the better the credit standing, the smaller the amount of cash on hand necessary at any one time.
   b. Thus, good cash management involves establishment and maintenance of a good credit rating.
8. a. An adequate flow of cash available to pay bills as they come due.
   b. Make the business as profitable as possible.
9. a. Careful planning of future needs for funds both short-term and long-term through maintenance of a budget system.
   b. Acquiring the needed funds from the most economical mix of sources.
   c. Control-comparing budgeted and actual figures to provide insight for improving in the future.
10. See TM #1 for diagram of cash flows.
11. Earning power is the return per dollar of operating assets each time it goes through the cash flow cycle coupled with the number of times this cycle is completed during the year.
12. a. Represents a large capital investment
    b. Difficult to convert into ready cash

13. Explain how a new business would determine necessary investment in inventory.
    a. Use subjective analysis
    b. Determine a reasonable and attractive selection of items to offer
    c. Estimate the sales for each item
    d. Select suppliers who will offer guidance

14. a. Costs associated with inventory
    b. Costs associated with space occupied
    c. Inventory service costs
    d. Costs associated with risk

15. List two problems management must face in determining best inventory level.
    a. Quantities that are most economical to buy
    b. The costs of being out of stock compared with cost of maintaining safety stock
    c. For seasonal merchandise, the lead time may be critical
    d. Overstocking means markdowns or carry over

16. Two ways management can evaluate its inventory policy
    a. Inventory turnover
    b. Regular check of inventory to determine stockouts, obsolescence, etc.
    c. Comparisons of actual with planned performance

17. Factors affecting amount of investment required to support credit program
    a. Proportion of cash and credit sales to total
    b. Terms of payment offered
    c. Seasonality of sales
    d. Changes in general business conditions

18. How credit sales affect working capital
    a. As credit sales increase, working capital available to replenish inventories decreases
    b. As inventories decline, we affect customer satisfaction and sales decline.

19. a. Level
    b. Acquisition
    c. Collections
20. Why it is difficult to administer a credit program
    a. Too restrictive, you sacrifice sales
    b. Too lenient, you increase bad debts to unacceptable levels

RETURN ON ASSETS AND INVESTMENTS, AND ACCOUNTS RECEIVABLE AND PAYABLE
UNIT I - SECOND SESSION

UNIT OBJECTIVE

After completion of this unit, the participant should be able to evaluate profitability in terms of assets utilized and investment in the business. He or she should be able to identify factors to consider in deciding whether to do business on a credit basis as well as to whom should credit be extended. The participant should be able to describe an effective process of collecting receivables and evaluating the investment of working capital in receivables. He or she should be able to state why a business might purchase on a credit basis and take advantage of purchase discounts. This knowledge will be evidenced through demonstration and by scoring eighty-five percent on the unit test.

SPECIFIC OBJECTIVES

After completion of this unit, the participant should be able to:

1. Match terms associated with return on assets and investment, and accounts receivable and payable to the correct definition.
2. Identify two basic concerns of financial management.
3. Name two techniques used in analyzing financial statement ratios.
4. Determine and distinguish between profitability based on assets and profitability based on investment.
5. Distinguish between trade and consumer credit.
6. Identify five reasons why a business may decide to grant credit.
7. Identify four reasons why a business may decide not to grant credit.
8. Recognize and identify the four types of consumer credit.
9. Identify and define the four "C's" of credit.
10. Distinguish between local and national credit agencies and list three ways in which each can help you manage credit more wisely.
11. Become aware of four other miscellaneous credit considerations.
12. List the steps customarily taken in collecting amounts due on account.
13. Identify two ratios that can help in controlling receivables and describe how they should be interpreted.

14. Name three reasons why a business would purchase on account.

15. Describe why a business should usually take advantage of purchase discounts.

RETURN ON ASSETS AND INVESTMENTS, AND ACCOUNTS RECEIVABLE AND PAYABLE
UNIT I - SECOND SESSION

SUGGESTED ACTIVITIES

I. Instructor:

  A. Provide participant with objective sheet.

  B. Provide participant with information and assignment sheets.

  C. Discuss unit and specific objectives.

  D. Discuss information and assignment sheets.

  E. Give test.

II. Participant:

  A. Read objectives.

  B. Study information sheet.

  C. Complete assignment sheets.

  D. Insure you can achieve each specific learning objective.

  E. Take test.

INSTRUCTIONAL MATERIALS

I. Included in this unit:

  A. Objectives

  B. Information sheets

  C. Transparency masters

    1. TM 1--Collecting Unpaid Bills

    2. TM 2--Bad Debt Ratios of Various Businesses

    3. TM 3--Why Take a Purchase Discount

  D. Assignment sheets

    1. Objective review questions

    2. Sample problems using selected ratios

  E. Test

II. References:

A. Baumback, Clifford M., Kenneth Lawyer and Pearce C. Kelly. How to Organize and Operate a Small Business. Englewood Cliffs, New Jersey: Prentice-Hall Inc., 1973.

B. Broom, H. N. and Justin G. Longenecker. Small Business Management. Cincinnati, Ohio: South-Western Publishing Company, 1975.

C. Klatt, Lawrence A. Small Business Management: Essentials of Entrepreneurship. Belmont, California: Wadsworth Publishing Company, Inc., 1973.

D. Stegall, Donald P., Lawrence Steinmetz and John B. Kline. Managing the Small Business. Homewood, Illinois: Richard D. Irwin, Inc., 1976.

RETURN ON ASSETS AND INVESTMENTS, AND ACCOUNTS RECEIVABLE AND PAYABLE
UNIT I - SECOND SESSION

INFORMATION SHEET

I. Terms and definitions

A. Basic

1. Asset--An economic resource that benefits future operations

2. Liability--An economic obligation or debt

3. Owner's equity--Owner's investment in the business, capital provided by owner(s). (Also called net worth)

4. Revenue--Income from the sale of products or services, rent or interest earned, gains on asset disposal

5. Expense--Expenditures made and resources used to generate revenue

6. Net income--Revenue less expenses, also called profit

7. Balance sheet--A statement showing a business's financial position in terms of assets, liabilities and owner's equity on a specific date

8. Income statement--A statement showing operating results in terms of revenues and expenses over a period of time

B. Operating assets--Working capital and fixed, long-term assets necessary in the primary operations of the business

C. Profit margin on sales--$\frac{\text{Net Income}}{\text{Sales}}$

D. Asset turnover--$\frac{\text{Sales}}{\text{Average total assets}}$

E. Return on assets

1. $\frac{\text{Net Income}}{\text{Average total assets}}$

2. Profit margin on sales X asset turnover

F. Operating income--Income generating from the primary operations of a business

G. Return on investment--$\frac{\text{Net Income}}{\text{Owner's equity}}$

H. Trade credit--Credit extended by a manufacturer or wholesaling firm (nonfinancial) to other business firms

I. Consumer credit--Credit extended by a retailer to final consumers purchasing for personal use

J. Current asset--An economic resource expected to be realized in cash, sold or consumed in one year or within the normal operating cycle

K. Accounts receivable--Amounts due from customers for products and services provided on credit

L. Types of consumer credit

   1. Ordinary charge account--Used for frequent, recurring, family expenditures. End-of-the-month billing

   2. Installment accounts--Used for larger expenditures for longer terms (1-3 years). Examples: cars, furniture, appliances

   3. Budget accounts--Used for short-term, extended payment plans (2-4 months for $100-$200 purchases). Examples: tires, lawn mower, household improvement

   4. Revolving charge account--When a credit line ($200 - $2000, varies) is established and a percentage of balance due is paid monthly. Interest is charged on unpaid balance

M. Accounts receivable turnover-- $\frac{\text{Annual credit sales}}{\text{Average accounts receivable}}$

N. Average age or collection period-- $\frac{365}{\text{Accounts receivable turnover}}$

O. Bad debt ratio-- $\frac{\text{Bad debts}}{\text{Total credit sales}}$

P. Aging accounts receivable--Classifying accounts receivable according to various time periods representing how long the accounts have been outstanding

Q. Current liability--An economic obligation or debt that must be paid within one year or the normal operating cycle

R. Accounts payable--Amounts owed to suppliers, wholesalers, and other business creditors for purchases made on credit

II. Two basic concerns of financial management
    A. Profitable operations
    B. Solvency and liquidity

III. Financial statement analysis
    A. Procedure--to relate one or more items on a given statement to other items on that or another statement
    B. Financial ratios--show relationships
    C. Two techniques in analyzing such ratios
        1. Comparison with the business's past results
        2. Comparison with similar businesses
        3. Sources of information: Dun and Bradstreet, Small Business Administration, trade associations, bankers

IV. Evaluating profitability
    A. In terms of assets--return on assets (ROA)
        1. $\text{ROA}=\frac{\text{Net Income}}{\text{Average total assets}}$
        2. Measures how efficiently assets are being utilized
        3. ROA depends on two items:
            a. Profit margin on sales=$\frac{\text{Net Income}}{\text{Sales}}$
            b. Asset turnover=$\frac{\text{Sales}}{\text{Average total assets}}$
    B. In terms of the owner's investment -- return on investment (ROI)
        1. $\text{ROI}=\frac{\text{Net Income}}{\text{Owner's equity}}$
        2. Measures how efficiently the owner's investment is being utilized

V. Doing business on a credit basis
    A. Trade credit--extended by a manufacturer or wholesaler to another business
        1. 90 percent or more of total sales
        2. Usually unsecured

- B. Consumer credit--extended by a retailer to the final consumer
  - 1. Approximately 40 percent of retail sales
  - 2. Competition and marketplace may "force" you to grant credit

VI. Positive factors to consider in granting credit

- A. Credit buyers tend to buy several times as much as cash buyers
- B. Credit is an accommodation and convenience
- C. Many customers are "credit-minded"
- D. Competition
  - 1. To meet competition
  - 2. Achieve a competitive advantage
- E. Growth in the use of general credit cards
  - 1. Costs 3-7%
  - 2. Eliminates/lessens credit burden, risk and recordkeeping
- F. Ultimate criterion: Increase in sales revenue should be greater than increased costs of granting credit

VII. Negative factors to consider in granting credit

- A. Bookkeeping, billing, credit management costs
- B. Bad debts expense
  - 1. Costs you money
  - 2. Disservice to customer who may overextend himself
- C. Customers more inclined to abuse "Return Goods" privilege
- D. Requires an investment in working capital
  - 1. May necessitate borrowing
  - 2. Ties up working capital

VIII. Four types of consumer credit

- A. Ordinary charge account
  - 1. Used for frequent, recurring, relatively small family expenditures
  - 2. Billing at end of the month

B. Installment accounts

  1. Used for longer term (1-3 years) purchases for cars, furniture and similar items

  2. Carrying charge added to cost

  3. 10-30% down and frequently involves repossession rights

C. Budget accounts

  1. Used for shorter term (60-120 days) but similar to installment accounts

  2. $100-$200 purchases for such items as lawn mowers, tires, household improvements

D. Revolving charge account

  1. When a percentage of a balance outstanding is due monthly

  2. A credit limit or line is established

  3. Interest is charged on unpaid balance

IX. Evaluating the credit applicant

  A. Character--willingness, responsibility, integrity

  B. Capital--ability, net worth, financial stability

  C. Capacity--economical, management ability, experience, efficiency

  D. Conditions--locally or nationally, industry, market

X. Credit agencies--assistance in credit management

  A. Local credit bureau - serves retailers

    1. Provides credit reports on customers/applicants

    2. Investigates "new-comers"

    3. Traces delinquent debtors

    4. Collection of past dues service

    5. Notifies members of poor risks

  B. Dun and Bradstreet Inc. - serves manufacturers and wholesalers (a national credit agency)

    1. Publishes a reference book six times a year covering all U.S. businesses

    2. Specific credit reports upon request

XI. Other credit considerations
- A. Other sources of information
  - 1. References, bankers, better business bureaus, and Chambers of Commerce
  - 2. Financial statements
  - 3. Internal records--payment record
- B. Establish a credit limit
- C. Establish a thorough and accurate recordkeeping system
  - 1. Customer file and account
  - 2. Systematic billing procedure
  - 3. Periodic reviews of credit accounts
- D. Consider credit insurance if in manufacturing or wholesaling

XII. Collection procedure
- A. Generally
  - 1. Systematic approach, applied consistently
  - 2. Promptness is essential (Transparency 1)
  - 3. Most effective "leverage" - debtor's credit standing
- B. Specific procedure or steps
  - 1. Invoice
  - 2. Statement of account
    - a. Reminds and verifies
    - b. Clearly show credit terms
    - c. Send on first of month
  - 3. Letter
    - a. Retain goodwill
    - b. Bill must be paid
  - 4. Telephone contact (also: telegram or registered letter)

5. Personal contact

6. Collection agency or attorney

XIII. Ratios to help control receivables

A. Accounts receivable turnover$=\dfrac{\text{annual credit sales}}{\text{average accounts receivable}}$

B. Average age or collection period$=\dfrac{365}{\text{accounts receivable turnover}}$

C. Interpreting turnover and collection period data

1. Indicates how quickly receivables are being collected on the average and

2. How efficiently we are utilizing the working capital invested in receivables

3. Too low a turnover or a long collection period is not good

4. Too high a turnover or a short collection period may not be good

5. Rule of thumb: average collection period should be no longer than: (1 1/3) X (credit period stated in terms)

D. Bad debt ratio$=\dfrac{\text{Bad debts}}{\text{Total credit sales}}$ (Transparency 2)

E. Aging of receivables

1. Classifying receivables according to length of time they have been outstanding

2. More specific look at problems

XIV. Why a business might purchase on account

A. Source of working capital

B. Opportunity to inspect goods prior to making payment

C. Convenience

XV. Why a business should usually take advantage of purchase discounts

A. It is very costly not to from an effective interest rate perspective

1. 2% for 20 days is equivalent to 36% effective annual interest

2. Bank loans can usually be had for less than half that rate

3. Transparency 3

B. It enhances your credit standing

COLLECTING UNPAID BILLS

TIME PERIOD OVERDUE	PERCENTAGE COLLECTED
2 - 3 MONTHS	90%
3 - 6 MONTHS	70%
6 MONTHS - 1 YEAR	60%
1 - 2 YEARS	40%
2 - 3 YEARS	30%
3 - 4 YEARS	15%

TM 1

BAD DEBT RATIOS OF VARIOUS TYPES OF BUSINESSES

BUSINESS	RATIO
APPAREL STORES	.02%
NEW CAR DEALERS	.02%
BOOK STORES	.10%
BUILDING MATERIALS DEALERS	.03%
CONVENIENCE FOOD STORES	.02%
FURNITURE STORES	.83%
GIFT SHOPS	.02%
MUSIC STORES	.02%
REPAIR SERVICES	.04%
SERVICE STATIONS	.02%
VARIETY STORES	.02%

WHY TAKE A PURCHASE DISCOUNT

TERMS	EFFECTIVE ANNUAL INTEREST RATE
1/10, N/30	18%
*2/10, N/30	36%
2/10, N/45	20.6%
2/10, N/60	14.4%
3/10, N/30	54%

*EXAMPLE: INTEREST OF 2% FOR 20 DAYS IS EQUIVALENT TO 36% ANNUALLY.

TM 3

RETURN ON ASSETS AND INVESTMENTS, AND ACCOUNTS RECEIVABLE AND PAYABLE
UNIT I - SECOND SESSION

ASSIGNMENT SHEET - OBJECTIVE QUESTIONS

1. Name two basic concerns of financial management:

   ____

   ____

2. Financial ratios must be compared to: ____________________ and ______________________________ if they are to be useful guides.

3. What is the difference between the return on assets and the return on investment ratio?

   A. Return on assets deals only with the owner's investment in the assets.

   B. Return on investment measures the owner's return on his business investment.

   C. There is never any difference.

4. List three reasons why a business might grant credit:

   ____

   ____

   ____

5. Credit should be granted if sales are expected to increase more than ____.

6. List the four "C's" of credit and a word or two descriptive of each:

   A. ________________________---- ________________________________

   B. ________________________---- ________________________________

   C. ________________________---- ________________________________

   D. ________________________---- ________________________________

7. Name four sources of information in evaluating credit applicants:

   ____

   ____

   ____

   ____

8. What six steps are commonly followed in collecting on accounts:

______________________________ ______________________________

______________________________ ______________________________

______________________________ ______________________________

9. A relatively high receivables turnover means the average collection period will be relatively

A. Shorter

B. Longer

10. Name two reasons why a business should take purchase discounts.

____

____

ASSIGNMENT SHEET - SAMPLE RATIO PROBLEMS

1. Lazy Days Furniture Company has provided you the following data and ask that you determine several financial ratios to assess its operating results and credit management. Sales terms are 2/10, n/30.

Net Income = $12,000
Sales = $100,000
Assets 1/1/76 = $125,000
Assets 12/31/76 = $175,000
Owner's Investment = $80,000

Accounts Receivable 1/1/76 = $8,000
Accounts Receivable 12/31/76 = $12,000
Credit Sales = $80,000
Bad Debts = $1,600

Determine the following:

A. Profit margin on sales

B. Asset turnover

C. Return on the assets invested

D. Return on the owner's investment

E. Accounts receivable turnover

F. Average age or collection period of receivables

G. Bad debt ratio

RETURN ON ASSETS AND INVESTMENTS, AND ACCOUNTS RECEIVABLE AND PAYABLE
UNIT I - SECOND SESSION

TEST

Match the following terms with the definitions listed below:

a. current asset
b. accounts payable
c. return on investment
d. bad debt ratio
e. accounts receivable turnover
f. aging accounts receivable
g. average age or collection period
h. return on assets
i. accounts receivable
j. net margin on sales

_____ 1. Classifying accounts receivable according to various time periods representing how long the accounts have been outstanding.

_____ 2. Amounts owed to suppliers, wholesalers and other business creditors for purchases made on credit.

_____ 3. $\frac{\text{Annual credit sales}}{\text{Average accounts receivable}}$

_____ 4. Amounts due from customers for products and services provided on credit.

_____ 5. $\frac{\text{Net Income}}{\text{Average total assets}}$

_____ 6. $\frac{\text{Bad Debts}}{\text{Total credit sales}}$

_____ 7. $\frac{\text{Net Income}}{\text{Sales}}$

_____ 8. $\frac{365}{\text{Accounts receivable turnover}}$

_____ 9. An economic resource expected to be realized in cash, sold or consumed in one year or within the normal operating cycle.

_____10. $\frac{\text{Net Income}}{\text{Owner's equity}}$

11. The financial ratios of a business should be compared with:

A. Those of other businesses functioning in unrelated fields.

B. No "outside" data since no two businesses are alike.

C. Those of other businesses functioning in the same industry.

12. Which of the following ratios best measures how efficiently assets are being utilized?

    A. Return on investment

    B. Bad debt ratio

    C. Net margin on sales

    D. Return on assets

13. Which ratio might best answer the following question, "Should I put my $5,000 in a business or should I put it in a savings account paying 5¼%?"

    A. Return on assets

    B. Accounts receivable turnover

    C. Return on investment

    D. Asset turnover

14. Which term is generally used to describe credit granted to another business.

    A. Trade credit

    B. Consumer credit

15. A business may decide not to grant credit for which of the following reasons:

    A. Cash customers always generate larger sales

    B. It ties up capital and may require borrowing

    C. Few customers are "credit minded" and would use it

    D. The sales generated would exceed the costs incurred in granting credit

16. In evaluating a credit applicant, the 4 C's of credit are important. Which of the 4 C's deals with financial stability and net worth?

    A. Capacity

    B. Character

    C. Conditions

    D. Capital

17. Which credit agency seeks to help the manufacturer or wholesaler in credit management?

    A. Local credit bureau

    B. Dun and Bradstreet

18. The initial letter sent to a delinquent customer should:

    A. Retain goodwill yet get the bill paid

    B. Be threatening

    C. Be sent in duplicate to a collection agency or attorney with this fact indicated on the letter

    D. Be mailed only if the cash discount is not taken

19. A business cannot have too high a turnover of its accounts receivable.

    A. True

    B. False

20. Why should a business generally take a purchase discount?

    A. It will enhance the credit standing of a business

    B. Even if it were necessary to borrow from the bank, a business would save money taking discounts

    C. Both of the above are true

RETURN ON ASSETS AND INVESTMENTS, AND ACCOUNTS RECEIVABLE AND PAYABLE
UNIT I - SECOND SESSION

ANSWERS TO TEST

1. f
2. b
3. e
4. i
5. h
6. d
7. j
8. g
9. a
10. c
11. c
12. d
13. c
14. a
15. b
16. d
17. b
18. a
19. b
20. c

PERSONNEL MANAGEMENT: FINDING AND EVALUATING APPLICANTS, ORIENTATION, TRAINING AND DISCIPLINE
UNIT I - THIRD SESSION

UNIT OBJECTIVE

After completion of this unit, the participant should be able to explain why effective personnel management is important in an organization. The participant should be able to list four sources for procuring job applicants and discuss each briefly. He or she should be able to identify three methods of screening job applicants and indicate how each should be utilized. The participant should be able to explain why training is important and identify how training objectives can be accomplished. He or she should be able to describe how discipline can be effective. This knowledge will be evidenced through demonstration and by scoring eighty-five percent on the unit test.

SPECIFIC OBJECTIVES

After completion of this unit, the participant should be able to:

1. Match terms associated with Personnel Management: Finding and Evaluating Applicants, Orientation, Training and Discipline to the correct definition.
2. Explain why many managers believe the human asset is the most important one and, therefore, give very careful consideration to hiring.
3. Distinguish between a job description and a job specification and name two reasons why a job description is desirable.
4. Name four sources for procuring job applicants and identify three advantages and three disadvantages of promoting from within.
5. Identify three methods of screening job applicants.
6. Describe how a job application can be used in the screening process.
7. Name four specific objectives of an interview, four approaches to interviewing more effectively, two basic types of interviews, and two common biases of interviewers. Be able to describe and discuss the foregoing aspects of interviewing.
8. Describe why a background investigation should be conducted and how it should be done.

2

9. Describe three miscellaneous considerations in making the final hiring decision.

10. Explain why orientation is important and identify three objectives it should accomplish.

11. Describe why an organization should consider training its employees, identify four ways in which training can be accomplished, and list four steps in implementing on-the-job training.

12. Identify five guidelines for more effective handling of disciplinary problems.

PERSONNEL MANAGEMENT: FINDING AND EVALUATING APPLICANTS, ORIENTATION, TRAINING AND DISCIPLINE
UNIT I - THIRD SESSION

SUGGESTED ACTIVITIES

I. Instructor:

- A. Provide participants with objective sheet.
- B. Provide participants with information and assignment sheet.
- C. Discuss unit and specific objectives.
- D. Discuss information and assignment sheets.
- E. Give test.

II. Participant:

- A. Read objectives.
- B. Study information sheet.
- C. Complete assignment sheet.
- D. Insure you can achieve each specific learning objective.
- E. Take test.

INSTRUCTIONAL MATERIALS

I. Included in this unit:

- A. Objectives
- B. Information sheets
- C. Transparency masters
  1. TM 1--Job Description
  2. TM 2--Application Form
- D. Assignment sheet--Review Questions
- E. Test

II. References:

A. Baumback, Clifford M., Kenneth Lawyer and Pearce C. Kelly. How to Organize and Operate a Small Business. Englewood Cliffs, New Jersey: Prentice-Hall Inc., 1973.

B. Broom, H. N. and Justin G. Longenecker. Small Business Management. Cincinnati, Ohio: South-Western Publishing Company, 1975.

C. Klatt, Lawrence A. Small Business Management: Essentials of Entrepreneurship. Belmont, California: Wadsworth Publishing Company, Inc., 1973.

D. Stegall, Donald P., Lawrence Steinmetz and John B. Kline. Managing the Small Business. Homewood Illinois: Richard D. Irwin, Inc., 1976.

PERSONNEL MANAGEMENT: FINDING AND EVALUATING APPLICANTS, ORIENTATION, TRAINING AND DISCIPLINE
UNIT I - THIRD SESSION

INFORMATION SHEET

I. Terms and definitions

   A. Human asset--Those people who are employed by an organization

   B. Skills inventory--Analysis of your current position in terms of knowledge, skills and abilities of present employees

   C. Job description--A written statement summarizing responsibilities, duties and requirements of a job.

   D. Job specification--A written statement summarizing the knowledge, skills, abilities, experience and other qualifications necessary for a job

   E. Job application--A quick systematic approach to obtaining a variety of information

   F. Interview--A general discussion with a job applicant to evaluate his potential for success in a given job

   G. Structured interview--When a list of specific items or questions to ask an applicant are determined in advance of an interview

   H. Unstructured interview--When broad, general questions are asked that afford the applicant maximum freedom to respond

   I. Stereotyping--Classifying applicants in extreme categories such as honest or dishonest, and "good" or "bad", and also as "average."

   J. Halo effect--Letting a single characteristic or first impression influence an overall evaluation

   K. Orientation--An introduction to a new job and/or organization

   L. Training--The process of imparting knowledge, developing skills or improving one's ability to perform a job

II. Significance of effective personnel management

   A. The human asset--the most important one

      1. An organization is just about as effective as the employees who work there

2. A profitable/successful business has carefully selected, properly trained and managed, loyal, satisfied employees

3. Absenteeism, tardiness, low morale, and turnover are costly

4. The small business can least afford it

B. Hiring process--starting point for building quality into an organization

1. Match--"right" person to "right" job

2. First--determine the jobs to be filled

3. Second--Skills inventory--a thorough analysis of present employees' knowledge, skills, and abilities

III. The job description and specification

A. Job description (Transparency #1)

1. Summarizes, in writing, the responsibilities, duties, and requirements of a job

2. Advantages in using a job description

a. Basis for recruiting, placing and training

b. Better organization of work to be done

c. Minimizes doubt and confusion about job requirements and expectations

3. Flexibility is important

B. Job specification (Person description)

1. Summarizes the knowledge, skills and qualifications necessary for a job

2. May be incorporated into the job description

IV. Where to find job applicants

A. Current employees--often overlooked

1. Advantages

a. Better knowledge of employees skills and abilities

b. Fosters pride and feeling of accomplishment

c. Morale booster--encourages hard work

d. Better return on training investment

2. Disadvantages
    a. "Outside" applicants are better qualified
    b. Current employees aren't interested
    c. Stifles new ideas and viewpoints
    d. Employees perceive favoritism
    e. What if employee doesn't succeed

B. State employment service
    1. Often excellent for nonprofessional, less skilled jobs
    2. No direct charge
    3. Pre-screening and testing program available
    4. Broad base--affiliated with U.S.E.S.

C. Private employment agencies
    1. Vary greatly as to fee, expertise, and clientele
    2. Often used where special training or skills are needed
    3. Prescreening and can disguise employer identity

D. Advertising
    1. Local paper, trade journals, radio, TV, window
    2. Results may be unpredictable

E. Miscellaneous sources
    1. Personal recommendations
    2. Schools
    3. Handicapped and older workers

V. The screening process
    A. Job application
    B. Interview
    C. Background investigation

VI. Job application (Transparency #2)

- A. A quick, systematic approach to obtaining a variety of information
    - 1. Work experience, salaries, duties, references, education
    - 2. Some personal characteristics
- B. Concentrate on pertinent information
    - 1. Background, abilities, skills and information necessary to predict job success
    - 2. Eliminate the extraneous

VII. Interview

- A. A general discussion with an applicant to assess his potential for success in a given job
    - 1. Most widely used screening device
    - 2. Especially helpful in evaluating personality, motivation, and attitude
- B. Specific objectives of an interview
    - 1. Gather and discuss factual information
    - 2. Assess personality, motivation and attitude
    - 3. Assess appearance, behavior and ability to communicate
    - 4. Provide the applicant information about company and the job
- C. How to interview more effectively
    - 1. Familiarity with the job description, specification and application
    - 2. Establish rapport
        - a. Relax the applicant
        - b. Privacy is important
        - c. Listen carefully and demonstrate interest
    - 3. Plan ahead to effectively use your time
    - 4. "Level" with the applicant

5. Humility on the part of the interviewer

a. Only a small sample of behavior is observed

b. Artificial environment

c. Avoid hasty generalizations and conclusions

D. Two basic types of interviews

1. Structured--determining in advance a list of questions or specific topics

a. Facilitates comparison

b. More reliable/consistent and valid

2. Unstructured--no preplanned strategy

a. Open, general questions provide applicant a free rein in responding

b. Can reveal much about personality, attitude

c. Difficult to do well

E. Common interviewer biases

1. Stereotyping

a. Failing to appreciate individual differences

b. Categorizing applicants as average, honest or dishonest, good or bad

2. Halo effect

a. Consciously or unconsciously allowing a single characteristic or a first impression to influence the overall evaluation

b. Promptness, dress, handshake, humor

3. Unfavorable aspects tend to influence interviewers more than the favorable aspects

4. There is a tendency to relate an applicant to a past acquaintance and judge accordingly

VIII. Background investigation

A. Essential part of selection process

1. Studies show not all applicants are truthful

2. Dates of employment, wages, reasons for leaving

- B. Who to check with
    - 1. Former employers
    - 2. Schools
    - 3. References listed
    - 4. Credit bureau
- C. Use telephone--quicker and more candid response
- D. Get applicants permission on the application (according to Fair Credit and Reporting Act)

IX. Miscellaneous considerations in the hiring decision

- A. Final analysis: two aspects
    - 1. Can-do: knowledge, skills, aptitude, health
    - 2. Will-do: motivation, attitude, personality
- B. Use input from all the screening tools and be objective where possible although judgment can't be eliminated
- C. Don't hire the over-qualified
- D. When a decision is made, ask the applicant "Do you want the job?"

X. Orientation

- A. An introduction to a new job and/or organization
- B. Objectives of orientation
    - 1. Provide general information
        - a. Organization, products, customers, goals
        - b. How job fits the overall picture
    - 2. Provide practical information
        - a. Explain nature of job duties and responsibilities, hours, pay, rules and procedure
        - b. Benefits and company policy
    - 3. Provide a basis for establishing effective human relations
        - a. Establish rapport and open communication
        - b. Teamwork is important
        - c. Initial impression can be lasting

XI. *Training*

- A. The process of imparting knowledge, developing skills or improving one's ability to perform a job
- B. The need for training
  - 1. To expect a given level of performance or type of behavior we must show, tell, demonstrate, teach or train so that employees will be aware and capable of what is expected
  - 2. Employee performance can be improved by training
    - a. Untrained employees are more costly
    - b. 25 billion dollars a year on training
  - 3. Both employer and employee benefit
- C. Developing a training program
  - 1. Determine what to teach--Learning objectives
    - a. Examine job description and specification
    - b. Assess current knowledge, skills, abilities, and problem areas
  - 2. Determine time required (few hours or few weeks)
    - a. Complexity of job, learning objectives
    - b. Intermittent, continuous process - (change)
  - 3. Who will do the training
- D. Ways in which training can be accomplished
  - 1. On-the-job training (O.J.T.)
    - a. First-hand experience in work environment
    - b. Most frequently used by small business
  - 2. Job rotation (a form of O.J.T.)
    - a. Placing employees in different or more complex jobs
    - b. Can be challenging and interesting
    - c. Yields flexibility

3. Conference or group approach
    a. Where common purpose or learning objectives are set
    b. Facilitates harmony and team spirit
    c. Plan thoroughly and organize it well
    d. Provide a rationale and keep it relative
    e. Use company time
4. Outside training activities
    a. Local schools
    b. S.B.A., Chamber of Commerce, trade associations, and other organizations' workshops
    c. Correspondence schools, film rentals

E. Implementing on-the-job training
1. Determine learning objectives--what to teach
    a. Outline your ideas
    b. Sound planning and analysis
2. Step-by-step explanations
    a. Verbally and visually of each main point
    b. Encourage questions and discussion
    c. Have employee explain it to you
3. Employee does the task
    a. Encourage, compliment, tactfully suggest and correct--be supportive
    b. Encourage questions and discussion
4. Employee on his own
    a. Gradually reduce supervision
    b. Yet follow-up after employee has been on the job to discuss problem areas and offer assistance

XII. Discipline

A. A necessary but distasteful aspect of being "boss"

1. Over or underemphasis on discipline can cost a manager respect
2. A delicate matter requiring careful consideration

B. Guidelines for more effective discipline

1. Know the facts
2. Be totally fair, consistent and impartial
    a. Well-established, discipline policy and progressive disciplinary action
    b. Discipline policy should be communicated and understood
3. Discipline is a private matter
4. Act promptly
5. Criticize the offense or action, not the person
6. Make the penalty a constructive learning experience if possible
7. Don't demote for disciplinary reasons

C. Termination

1. Last resort--after having followed carefully your organization's discipline procedure
2. Exercise discretion and care
    a. Social responsibility and legal liability - (just cause)
    b. Devastating blow to most people

JOB DESCRIPTION

Job title: Office and credit manager

Supervisor: Store manager

General summary of responsibilities: Responsible for all office and credit activities of the store. Accountable for control of the store's assets. Assists store manager in administering store policies, procedures and rules.

Duties:

1. Inspects sales tickets for accuracy of price, account classification and delivery information on a daily basis
2. Checks purchase invoices for accuracy and verifies receipt of goods and obtains store manager's approval for payment on a weekly basis
3. Prepares the financial statements of the store on a monthly basis
4. Supervises the performance of four accounting clerks who accomplish the routine bookkeeping activities
5. Analyzes and processes credit applications to include insuring credit worthiness of customers
6. Establishes and carries out credit collection procedures
7. Sells merchandise in rush hours and assists store manager in other miscellaneous ways as required

TM 1

APPLICATION FORM

I. PERSONAL DATA

Name ______________________________ Soc. sec. # _____________

Address ___________________________ Tel. # _________________

____

Married ( ) yes, ( ) no; Dependents ____________________________

II. WORK EXPERIENCE

Present or most recent job:

Employer name and address ____________________________________

____

Dates of employment ______________________________________

Job title ____

Duties and responsibilities ________________________________

____

Reason for leaving _______________________________________

Next-most-recent job:

Employer name and address ____________________________________

____

Dates of employment ______________________________________

Job title ____

Duties and responsibilities ________________________________

____

Reason for leaving _______________________________________

III. EDUCATION

College or Trade School:

Name ______________________ Address ________________

graduate ( ) yes ( ) no year ___ ________________

Area of study ______________________________________

High School:

Name ______________________ Address ________________

graduate ( ) yes ( ) no year ___ ________________

IV. REFERENCES (List two not mentioned above)

Name ______________________ Tel. # ________________

Address ______________________ Occupation ________________

Name ______________________ Tel. # ________________

Address ______________________ Occupation ________________

V. SIGNATURE

To the best of my knowledge, the above information is true and correct. I authorize you to contact the references and former employers listed above:

______________________ (signed)

TM 2

PERSONNEL MANAGEMENT: FINDING AND EVALUATING APPLICANTS, ORIENTATION, TRAINING AND DISCIPLINE
UNIT I - THIRD SESSION

ASSIGNMENT SHEET - REVIEW QUESTIONS

1. Distinguish between stereotyping and the halo effect.

2. Name the three advantages in using job descriptions.

   a. ____________________

   b. ____________________

   c. ____________________

3. List five reasons why an employer might not promote from within.

   a. ____________________

   b. ____________________

   c. ____________________

   d. ____________________

   e. ____________________

4. Comment briefly on the following statement: "It is either up or out. An employee should be required to accept a promotion as a condition of employment."

5. Name three screening tools to help the employer decide who should be hired.

   a. ____________________

   b. ____________________

   c. ____________________

6. What are the specific objectives of the job interview?

   a. ____

   b. ____

   c. ____

   d. ____

7. Comment on what humility has to do with interviewing effectively.

8. In conducting a background investigation, who all might be contacted?

   a. ____

   b. ____

   c. ____

   d. ____

9. Which is easiest to evaluate: can do or will do? Comment briefly.

10. What should a job orientation accomplish?

   a. ____

   b. ____

   c. ____

11. "Training is a waste of time and money. They can learn on the job. It is best to put them to work as soon as possible." Do you agree or disagree? Why?

12. What are the four steps to be followed in implementing an on-the-job training program?

   a. ____

   b. ____

   c. ____

13. List five of the seven guidelines for effective discipline.

a. ______________________________

b. ______________________________

c. ______________________________

d. ______________________________

e. ______________________________

PERSONNEL MANAGEMENT: FINDING AND EVALUATING APPLICANTS, ORIENTATION, TRAINING AND DISCIPLINE
UNIT I - THIRD SESSION

TEST

Match the following terms with the definitions listed below:

a. structured interview
b. job specification
c. halo effect
d. application
e. job description
f. unstructured interview

_____ 1. Letting a single characteristic or first impression influence an overall evaluation.

_____ 2. When broad, general questions are asked that afford the applicant maximum freedom to respond.

_____ 3. A written statement summarizing the knowledge, skills, abilities, experience and other qualifications necessary for a job.

_____ 4. When a list of specific items or questions to ask an applicant are determined in advance of an interview.

_____ 5. A quick, systematic approach to obtaining a variety of information.

_____ 6. A written statement summarizing responsibilities, duties, and requirements of a job.

7. Which of the following might be considered an advantage in using job descriptions?

   a. provides an accurate picture of the "ideal" employee

   b. aids employer in conducting a background investigation

   c. minimizes doubt and confusion about job requirements

8. One of the reasons why a manager might promote from within is:

   a. promote new ideas and fresh approaches to problems

   b. better return on the training dollar investment

   c. better able to assess an outsider

   d. force his employees to move up or out

9. Responses to an advertisement in a local paper for job applicants is likely to be:

   a. predictable

   b. unpredictable

10. Concerning the quantity and type of information requested, a job application should:

    a. concentrate on information that will help the employer predict success on the job

    b. provide a great deal more information than just what is necessary to assess employability

    c. never ask for salaries of past jobs

11. What type of interview would you use to assess an applicant's attitude and motivation?

    a. structured

    b. unstructured

12. To interview more effectively, the interviewer should:

    a. establish rapport

    b. be familiar with the application and job description

    c. avoid hasty generalizations and conclusions

    d. all of the above

13. In conducting a background investigation, it is best to:

    a. use the mail and enclose a stamped, return-addressed envelope

    b. not inform the applicant of your investigation

    c. use the telephone

    d. check only former employers

14. Job orientation should accomplish which of the following?

    a. provide a thorough knowledge of all aspects of the job and develop the required skills

    b. provide a basis for developing effective human relations

    c. prepare the employee to accept additional responsibilities

15. What is the first step in implementing on-the-job training (O.J.T.)?

    a. give the employee a chance to try the task

    b. explain the task: step-by-step

    c. choose a knowledgeable trainer

    d. determine the learning objective

PERSONNEL MANAGEMENT: FINDING AND EVALUATING APPLICANTS, ORIENTATION, TRAINING AND DISCIPLINE

UNIT I - THIRD SESSION

ANSWERS TO TEST

1. c
2. f
3. b
4. a
5. d
6. e
7. c
8. b
9. b
10. a
11. b
12. d
13. c
14. b
15. d

INVENTORY CONTROL AND PRODUCT PRICING
UNIT I - THIRD SESSION

UNIT OBJECTIVE

After completion of this unit, the participant should be able to demonstrate the ability to use good inventory management by adhering to the objectives, rules and systems for inventory control. The participant should be able to determine pricing policies and factors affecting those policies. Further, he should be able to figure markup as an amount and/or percent of selling price. This knowledge will be evidenced through demonstration and by scoring eighty-five percent on the unit test.

SPECIFIC OBJECTIVES

After completion of this unit, the participant should be able to:

1. Match terms associated with inventory control and pricing to correct definitions.
2. List three problems associated with uncontrolled inventory.
3. Name five major inventory costs with which managers of small businesses should be concerned.
4. Explain the need for development of objectives for inventory control.
5. Name four of five objectives of inventory control.
6. Explain what is meant by paying interest on money invested in inventory.
7. List the corollary advantages of investment control.
8. Describe the three fundamental rules for good inventory control.
9. Discuss the procedure for incorporating an ABC inventory control system.
10. Demonstrate how markdowns can be less costly than storage costs.
11. Explain why perfection is not a obtainable goal for inventory control.
12. Distinguish among the three basic types of inventory control systems.
13. Explain why prices are set.
14. Describe six reference points for establishing a pricing framework.
15. Match factors influencing pricing decisions to the correct definition.

16. Explain the type of situation where a business might be able to use a standard or average markup on all merchandise.

17. List the items that must be covered by markup.

INVENTORY CONTROL AND PRODUCT PRICING
UNIT I - THIRD SESSION

INSTRUCTIONAL MATERIALS

I. Included in this unit:

  A. Objectives

  B. Information sheets

  C. Transparency masters

    1. TM #1 Good Inventory Control Reduces Costs and Aids Customer Relations

    2. TM #2 Perpetual Inventory Card

    3. TM #3 Pricing Policy

    4. TM #4 Shelf Space Analysis

  D. Job sheets

    1. Markup and Pricing

    2. Shelf Space Analysis

  E. Test

II. References

  A. Steinhoff. Small Business Management Fundamentals. New York: McGraw-Hill Book Company.

  B. Pickle-Abrahamson. Small Business Management. Santa Barbara, California: John Wiley & Sons, Inc.

  C. Stegall-Steinmetz-Kline. Managing the Small Business. Homewood, Illinois: Richard D. Irwin, Inc.

INVENTORY CONTROL AND PRODUCT PRICING
UNIT I - THIRD SESSION

INFORMATION SHEET

I. Terms and definitions

  A. Inventory control--Maintenance of an adequate inventory that will satisfy customer demands yet small enough to keep costs at their lowest possible level

  B. Physical inventory--A periodic count of all inventory owned by a business listed by item, quantity and price

  C. Perpetual inventory--A book inventory used to control costs and improve efficiency

  D. Shelf space analysis--Means of measuring the profitability of each item in terms of turnover, profit per item and amount of selling space required to sell product

  E. Pricing framework--A series of reference points, comparisons and judgments taken together to provide some idea of what the "right" initial price should be for a particular item

  F. Markup--The difference between what is paid for merchandise and the price at which it is sold to the customer

II. Uncontrolled inventory results in a number of cost related problems for the average small business

  A. Overstocking--An inherent problem for small business management. There is a tendency to seek security against stock outages and customer dissatisfaction which can be extremely costly.

  B. Theft and shoplifting--Without proper controls, there is no way of recognizing these problems let alone correcting them

  C. Insurance claims and tax assessments, etc.--Adequate records are necessary in order to comply to demands and regulations of others

III. There are a number of costs associated with inventory including the investment in the merchandise itself. However, many of these costs can be anticipated and controlled if proper management principles are incorporated. The major costs we should be concerned with include: (Transparency #1)

  A. Storage

  B. Spoilage and/or obsolescence

  C. Insurance

D. Handling

E. Interest

IV. Because of the importance of inventory control to the small business, it is necessary to develop specific purposes and objectives of inventory control

A. Enables the business manager to understand the benefits gained from effective inventory control

B. Helps avoid the pitfalls of poor inventory management

V. The objectives of inventory control for a small business should include:

A. Physical protection

B. Investment control

C. Material and product flow control

D. Cost control

E. Promoting sales

VI. Inventory is money held temporarily in the form of a product or materials needed to produce a profit.

A. Since it is not cash as such, it cannot be invested where it can earn interest. This interest that is lost can be considered an opportunity cost.

Example: After a year, $100 in the bank may be worth $110. The opportunity cost of investing that same $100 in inventory that is setting on a shelf is $10.

B. Investment in inventory represents money on which you pay interest.

Example: After a year on the shelf, $100 worth of inventory is worth nearer to $80 because of deterioration resulting from obsolescence and handling. In addition, it has cost you $20 expense to carry it.

C. Total cost of investing $100 in inventory may equal approximately $50 over a one-year period.

VII. The objective of investment control is to reduce inventory to the barest practical minimum. When this can be accomplished, a number of other related costs will also be affected, thus we have what can be termed corollary advantages which include:

A. Increased liquidity

B. Decrease in storage space requirements

C. Reduced insurance premiums and taxes

D. Less risk of loss due to obsolescence, shrinkage, or breakage

VIII. Three fundamental rules for good inventory control

A. Concentrate your efforts on those items of inventory that are vital to the success of your business

B. Perfection in the supply of inventory items is the aim of inventory control

C. Since 25 percent of any inventory is waste, eliminate it as quickly as possible

IX. Procedure for incorporating an ABC inventory control system

A. All inventory items must be designated as either A, B, or C items

B. A items are those vital few items which are very expensive, hard to obtain, or vital by way of perpetuating sales

1. Receive full treatment of record-keeping, costing, and protection

2. The need for these items must be calculated ahead of time providing ample lead time for reorder

3. Because of their costs, stocks are always held at a bare minimum but frequently reordered

C. C items are classed as the trivial many which are the waste items

1. Get little attention in planning and record-keeping because of low value and/or importance

2. The only control for these items is that when the supply is obviously low, they are replaced

3. Although this lack of control will boost inventory costs, it will be offset by a reduction in control costs

D. B items fall in the middle having moderate costs and creating lost sales if stock were depleted

1. Keeping adequate records not as important as with A items but controls will be maintained routinely

2. With B items we determine a minimum stock limit and a standard reorder quantity based on past sales and use

3. Although we may occasionally experience outages, the effects will not be of any significance

X. Because of the costs or "interest" associated with inventory, it will normally be better to markdown merchandise to get rid of it rather than store it for future use

  A. Assume that 25 percent of the value of inventory erodes as a result of "interest" and/or deterioration

  B. Then statistically, the business would be as well off to sell the item this year at 25 percent below cost than carry it on the books for the following season

  C. A business can figure it is breaking even or getting ahead if it can sell the item for more than 75 percent of cost rather than store it for 9-12 months

XI. In order to have a perfect supply of an item, the business should never have anything on hand and never have to pay high prices because of buying in small quantities. Perfection, then, is unattainable but the process dictates that this perfection must be a continuous goal of inventory management.

XII. Basic inventory control systems

  A. Perpetual system (Transparency #2)

    1. Use control records to obtain a book count of inventory and basic control information used in analysis

    2. Periodical physical inventory taken to compare data for accuracy, theft and shrinkage

    3. Control cards or bin tags often used for this system

  B. Visual control system

    1. Manager does a daily visual examination of stock on hand

    2. Depending on experience and familiarity to determine reorder points and quantities

  C. Partial control systems

    1. Partial perpetual inventory system

    2. Rotating perpetual system

XIII. Prices are set for the purpose of making a sale

XIV. Reference points for establishing a pricing framework

A. The product or service offered--Because there may be many products or services offered that are capable of providing similar end results, the smart businessman tries to determine changes in the product or services to be offered to enhance its value to the public.

B. Environment of the sale--The total environment under which a sale takes place has a very definite effect on the price that can be charged. The right environment should permit the seller to sell at a higher price.

C. Reputation--May have a significant impact on the prices to be charged. It is the result of customers' collective opinions that prices are right. Reputations provides the opportunity to price favorably for a firm.

D. Competition--Efforts of competitors and competitive products will set the price levels for many products and services. Try to avoid competition in price and selection and stress services and accommodations.

E. Value--A particular product or service has at all times something which determines its value to those who own it and those who want it. Value is reflected in price and the smaller business in uniquely equipped to utilize value in connection with price. You can meet customers' demands by modifying product to meet wants.

F. Timing--Factor that favors the small business. Products and services go through life cycles, as well as seasonal variations in demand and periods of over-supply or shortages. The flexibility of the small business enables it to be on top of such change.

XV. Factors influencing pricing decisions

A. Fair trade laws--Laws allowing the manufacturer of a product to make agreements with dealers who retail his product on the price it can be sold to the public

B. Nationally advertised prices--Places an upper limit to the prices that the businessman can charge because of customer awareness

C. Desired customer clientele--Your target market determines the limits of your price range

D. Manufacturers' suggested prices--Designed by manufacturers to protect the quality image of their products and protect profit margins for the individual retailer

E. Type of merchandise handled--Whether it is convenience, shopping or specialty merchandise, it can have an impact on pricing decisions

F. Seasonal nature of sales--Make it possible to alter prices with high and low seasons of sales volume

   G. Demand for a product--Elastic demand suggests lower prices because volume can be increased

   H. Price lining--A policy of keeping merchandise in well-defined price ranges

XVI. A standard markup can usually be adopted by retail stores that have products that are alike or closely related. Franchised operations that handle products in the same price range, or have little competition ofter are able to use a standard markup. (Transparency #3)

XVII. A markup must cover the following:

   A. Operating expenses

   B. Markdowns

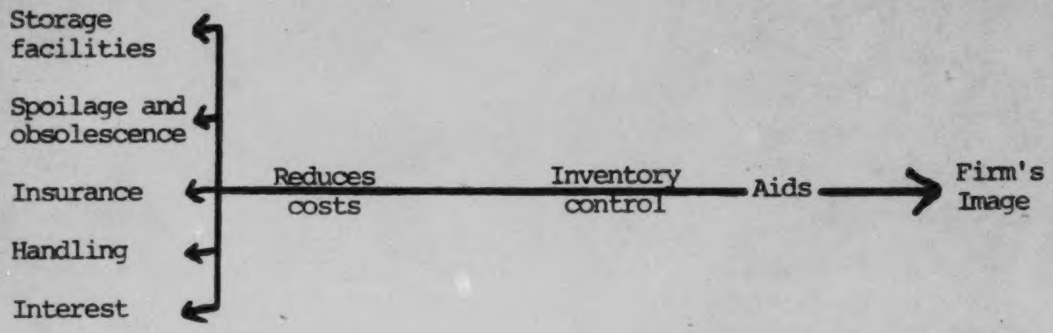
   C. Shortages

   D. Damaged merchandise

   E. Employee discounts

   F. Profits

GOOD INVENTORY CONTROL REDUCES COSTS AND AIDS CUSTOMER RELATIONS


Storage facilities
Spoilage and obsolescence
Insurance
Handling
Interest
Reduces costs
Inventory control
Aids
Firm's Image

Source: Pickle-Abrahamson. Small Business Management. Santa Barbara, California: John Wiley & Sons. Inc. p. 309.

TM 1

PERPETUAL INVENTORY CARD

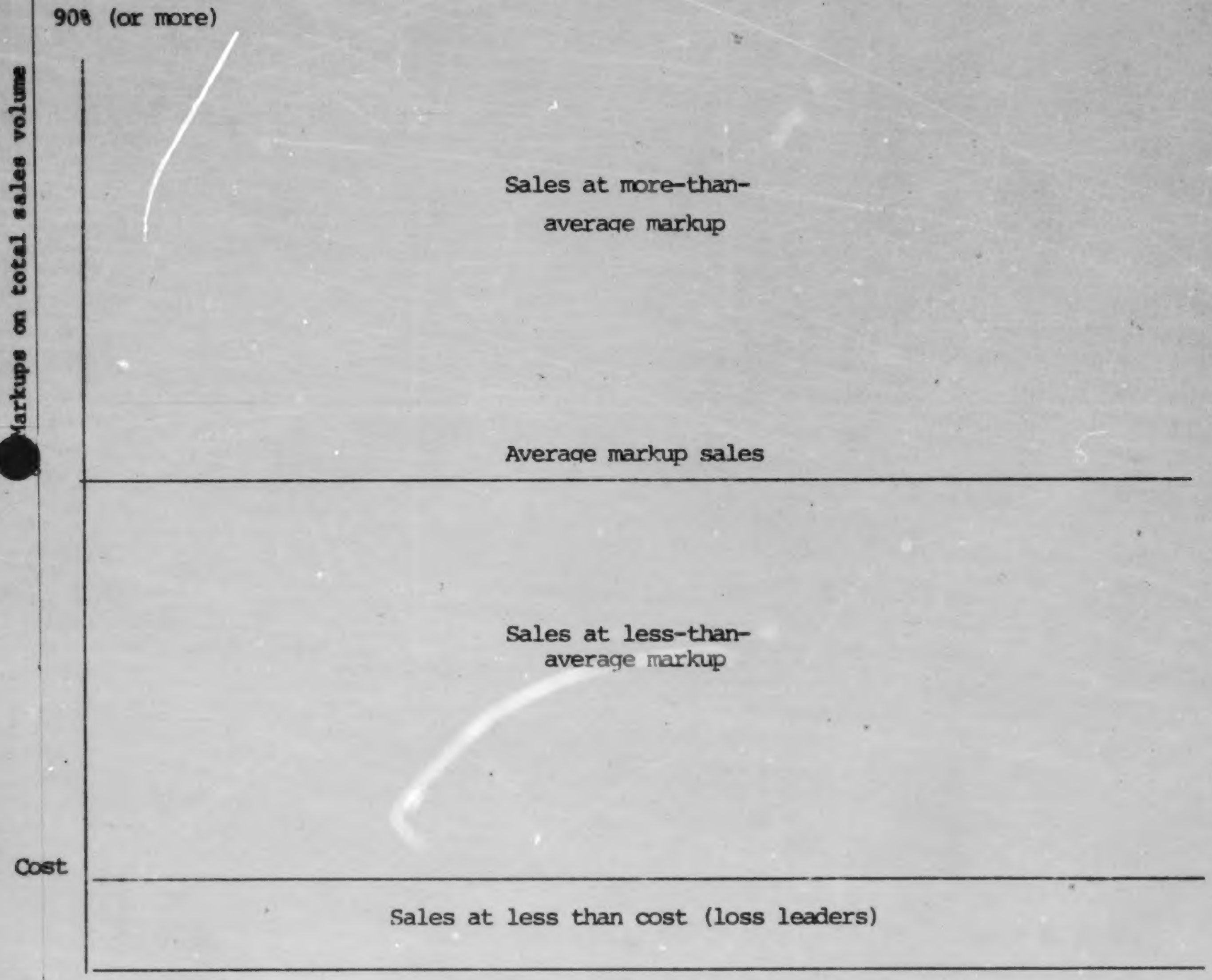
Item ______________________________

Reorder Point ______________ Order Amount ______________ Stock Control # ______________

IN		OUT		BALANCE	
Date	Amount	Date	Amount	Date	Amount

Source: Pickle-Abrahamson. Small Business Management. Santa Barbara, California: John Wiley & Sons, Inc., p. 309.

PRICING POLICY


90% (or more)
Markups on total sales volume
Sales at more-than-average markup
Average markup sales
Sales at less-than-average markup
Cost
Sales at less than cost (loss leaders)

Source: Steinhoff. Small Business Management Fundamentals. New York: McGraw-Hill Book Company. p. 145.

SHELF SPACE ANALYSIS

Cost of Item per Unit X Percentage Markup = Gross Profit per Unit

Gross Profit per Unit X Number of Units Sold During period = Total Gross Profit for Period

Total Gross Profit X Shelf Space Occupied in Square Inches = Gross Profit per Square Inch for the Period

Source: Pickle-Abrahamson. Small Business Management. Santa Barbara, California: John Wiley & Sons, Inc. p. 318.

TM 4

INVENTORY CONTROL AND PRODUCT PRICING
UNIT I - THIRD SESSION

JOB SHEET #1--MARKUP AND PRICING

Because of the significance of markup to pricing and the successful operation of a business, management must be aware of the factors to consider in determining a sufficient rate to cover all costs and allow for a profit. The initial price in dollars must equal the cost of merchandise plus operating expenses, plus markdowns, plus shortages, plus damaged goods, plus employee discounts, plus profit.

He must also be able to compute markup on cost, to determine the initial price, and markup on retail to analyze the success of his operations.

I. Materials and equipment needed

   A. Historical data regarding operating expenses, sales, and other costs or a projected budget figure for same (Income statement)

   B. Invoices or inventory control records to determine costs of goods

   C. Calculator

II. Procedure

   A. Determine the relationship (ratio) of operating expenses to sales. This will give you the percent of markup needed to cover operating expenses.

   B. Determine the percent of markup needed to cover markdowns, shortages, damaged merchandise, and employee discounts.

      1. This may be determined in same manner as "A" above if data is available

      2. If data lacking, you may use a judgment figure. A common rate for many retailers is 3 percent.

   C. Determine the percent of markup needed to cover desired profit.

      1. This is expressed as a rate of return based on sales and can be determined by dividing net income by sales.

      2. It can also be a subjective rate based on experience or expectations.

   D. Add A, B, and C together to obtain the markup based on selling price or sales.

E. You must next determine the markup based on cost which will enable you to figure initial selling price

1. The percent of markup based on selling price must be converted to a fractional equivalent.

   Example: 40% is equivalent to a fraction of 40/100 which can be reduced to 2/5

2. Assuming the numerator equals 'x' and the denominator equals 'n', substitute the amounts in the conversion formula x/n-x to determine the markup based on cost.

   Example: $\frac{2}{5}$ 2 = numerator = x
   5 = denominator = n

$$\frac{x}{n-x} = \frac{2}{5-2} = \frac{2}{3} = 66\ 2/3\%$$

3. Multiply the cost of the item by 2/3 or 66/23 percent to determine the amount of markup.

4. Add the markup plus the cost to determine the initial selling price.

III. Diagram of procedure

A.	Sales are estimated to be $100,000 and operating expenses should equal $15,000 for the coming year. Therefore, the ratio of operating expenses to sales will be 15000/1000000 =	15% of sales
B.	A standard ratio for all other costs is estimated average	3% of sales
C.	The desired profit ratio is	12% of sales
D.	Therefore, the total markup based on sales =	30%

E. 30% = 30/100 = 3/10

$$\frac{x}{n-x} = \frac{3}{10-3} = \frac{3}{7} = 7\overline{)3.00} = 43\% = \text{markup based on cost}$$

F. Markup based on cost as an amount

Merchandise at cost	$ 75
Rate of markup	x .43
Markup based on cost	32.25

G. Initial selling price

Merchandise at cost	$ 75.00
Markup based on cost	+ 32.25
Initial selling price	$107.25

INVENTORY CONTROL AND PRODUCT PRICING
UNIT I - THIRD SESSION

JOB SHEET #2--SHELF SPACE ANALYSIS (Transparency 4)

The following is a suggested procedure for determining the profitability of a product in relation to space utilization. It is a fairly simple process but may require a considerable amount of time depending on the number of inventory items stocked. One advantage, however, is that you will not have to repeat the process unless items are added or current inventory has undergone some dramatic change in price, volume or shelf space required. The advantage of this analysis in relation to profitability and costs is that you can easily identify high profit products, eliminate and/or replace low profit items, thus improving your utilization of limited selling space. Remember though, that decisions to replace low profit items should be tempered with a realistic judgment as to their value in customer satisfaction.

I. Materials and equipment needed

   A. Index cards

   B. Calculator

   C. Tape measure

   D. Inventory turnover records for each item of merchandise to be analyzed. (Perpetual inventory records)

II. Procedure

   A. Measure each item in terms of the amount of space it occupies in the selling area (in square inches).

   B. Compute the average number of items sold each month

      1. Beginning inventory plus purchases for the year minus ending inventory divided by 12

      2. Seasonal goods should be computed by dividing by number of months it is carried in selling area.

	Cameras	Styrofoam Coolers
Beginning inventory	30	100
Purchases for year	50	1150
	80	1250
Less ending inventory	20	50
Total sold for year	60	1200

C. Next, determine the gross profit per unit by multiplying unit cost by the markup percentage used.

D. Then, multiply gross profit per unit by average monthly units sold to determine the total gross profit for the month.

	Cameras	Styrofoam Coolers
Cost per unit	$ 20	$ .50
Times markup percentage	x 50%	x 40%
Equals gross profit per unit	$ 10	$ .20
Times units sold per month	x 5	x 300
Equals gross profit per month	$ 50	$ 60

E. Divide gross profit by shelf space in square inches to determine gross profit per square inch for the month.

	Cameras	Styrofoam Coolers
Shelf space occupied	15" by 20"	40" by 60"
Total shelf space occupied	300 square inches	2400 square inches
Gross profit per square inch of shelf space per month	$50 ÷ 300 = $.167	$60 ÷ 2400 = $.025

INVENTORY CONTROL AND PRODUCT PRICING
UNIT I - THIRD SESSION

TEST

1. Match the terms on the right to the correct definition.

   ___ a. Means of measuring profitability of products in relation to selling space required

   ___ b. A periodic count of all inventory owned by a business

   ___ c. The difference between what is paid for merchandise and the price at which it is sold

   ___ d. Maintaining inventory at its lowest possible cost while still meeting customer demands

   ___ e. A book inventory used to control costs and improve efficiency

   ___ f. Reference points that provide some idea of what the "right" initial price should be for a product

   1. Inventory control
   2. Physical inventory
   3. Perpetual inventory
   4. Shelf space analysis
   5. Pricing framework
   6. Markup

2. List three problems associated with uncontrolled inventory.

   a.

   b.

   c.

3. Name five major inventory costs with which managers of small businesses should be concerned.

   a.

   b.

   c.

   d.

   e.

4. Briefly explain the need for development of objectives for inventory control.

5. Name four objectives of inventory control.

   a.

   b.

   c.

   d.

6. Briefly explain what is meant by paying interest on money invested in inventory.

7. List two corollary advantages of investment control.

   a.

   b.

8. Describe the three fundamental rules for good inventory control.

   a.

   b.

   c.

9. Discuss the procedure for incorporating an ABC inventory control system.

10. Explain why markdowns can be less costly than storage costs.

11. Explain why perfection is not an obtainable goal for inventory control.

12. Distinguish between perpetual inventory systems and visual control systems by placing an "X" to the left of the description of a perpetual inventory system.

    ___ a. Use control records to obtain a book count of inventory

    ___ b. Manager does a daily visual examination of stock on hand

13. Prices are set for the purpose of ______________________________.

14. Describe the six reference points for establishing a pricing framework.

    a. The product or service offered--

    b. Environment of the sale--

    c. Reputation--

    d. Competition--

    e. Value--

    f. Timing--

15. Match the terms on the right to statements regarding factors influencing pricing decisions.

___ a. Your target market determines the limits of your price range

___ b. Places an upper limit to the prices that the businessman can charge because of customer awareness

___ c. Laws allowing the manufacturer to set prices

___ d. A policy of keeping merchandise in well-defined price ranges

___ e. Elasticity can determine whether lower prices will sell more goods

1. Fair trade laws
2. Nationally advertised prices
3. Desired customer clientele
4. Demand for a product
5. Price lining

16. Under what situation might a business be able to use a standard markup on all products.

17. List the six items that must be covered by markup.

a.

b.

c.

d.

e.

f.

INVENTORY CONTROL AND PRODUCT PRICING
UNIT I - THIRD SESSION

ANSWERS TO TEST

1. a. 4
   b. 2
   c. 6
   d. 1
   e. 3
   f. 5
2. a. Overstocking
   b. Theft and shoplifting not controlled
   c. Problems complying to the demands of outside influences
3. a. Storage
   b. Spoilage and/or obsolescence
   c. Insurance
   d. Handling
   e. Interest
4. a. Enables the business manager to understand the benefits gained from effective inventory control
   b. Helps avoid the pitfalls of poor inventory management
5. The objectives of inventory control (four of five)
   a. Physical protection
   b. Investment control
   c. Material and product flow control
   d. Cost control
   e. Promoting sales
6. To the lost opportunity costs of investing your money elsewhere, you must add the losses resulting from product deterioration and the expense of storage.

7. List two of four corollary advantages of investment control

   a. Increased liquidity

   b. Decrease in storage space requirements

   c. Reduced insurance premiums and taxes

   d. Less risk of loss due to obsolescence, etc.

8. a. Concentrate your efforts on those items of inventory that are vital to the success of your business

   b. Perfection in the supply of inventory items is a goal of inventory control

   c. Since 25 percent of any inventory is waste, eliminate it as quickly as possible

9. a. All inventory items must be designated as either A, B, or C items

   b. Classification will determine the amount of time and effort spent on inventory control

10. Because the costs associated with inventory will normally be high, it will be better to markdown merchandise to get rid of it rather than store it for future use.

11. In order to have a perfect supply of an item, the business should never have anything on hand and never have to pay high prices because of buying in small quantities. This is impossible to attain.

12. _X_ a.

13. Prices are set for the purpose of making a sale.

14. a. Because of similarity of end results from purchase of several products, you need to consider methods of differentiation.

    b. The image of a firm is determined by the location and appearance of the business. This can affect pricing.

    c. The collective opinions of customers' can provide opportunities to favorably adjust prices.

    d. Competition will set the price levels for many products and services.

    e. Because a product or service has value to those who own it or want it, the businessman can reflect those values in his prices.

    f. The ability to have the right products at the right place at the right time can favorably affect pricing decisions.

15. a. 3
    b. 2
    c. 1
    d. 5
    e. 4

16. A standard markup can usually be adopted by retail stores that have products that are alike or closely related.

17. a. Operating expenses
    b. Markdowns
    c. Shortages
    d. Damaged merchandise
    e. Employee discounts
    f. Profits

PURCHASING: ASSESSING NEEDS, EFFECTIVE BUYING, LOCATING SUPPLIERS, SUPPLIER RELATIONSHIPS
UNIT II - FIRST SESSION

UNIT OBJECTIVE

After completion of this unit, the participant should be able to explain why effective purchasing is important and why careful planning is essential to assessing needs. The participant should be able to identify four important considerations in effective buying, describe three criteria for selecting suppliers and list five sources of information for locating suppliers. The participant should be able to name three reasons why to and why not to use one supplier, explain why sound supplier relationships are important and describe how they can be developed. The participant will be exposed to such practical considerations as the purchase order, the F.O.B. point, and purchasing records. The participant should be able to explain how retail purchasing differs from other areas and name three sources of supply somewhat peculiar to small retailers. This knowledge will be evidenced through demonstration and by scoring eighty-five percent on the unit test.

SPECIFIC OBJECTIVES

After completion of this unit, the participant should be able to:

1. Match terms associated with Purchasing: Assessing Needs, Effective Buying, Locating Suppliers, Supplier Relationships to the correct definition.

2. Distinguish between purchasing in a narrow sense and purchasing in a broad sense, and explain why effective purchasing is important.

3. Explain why careful planning is important in assessing needs and name two considerations in determining equipment and inventory needs.

4. Identify four important considerations in effective buying and explain the significance of each.

5. Describe the three key criteria to consider in selecting suppliers and list five sources of information for locating suppliers.

6. Name three reasons why a business might utilize two or more sources of supply and name three reasons why a single, sole source might be utilized.

7. Explain why sound supplier relationships are important and identify five suggestions for developing such relationships.

8. List five items that should be on a purchase order, explain why the F.O.B. point is important, and name three items that should be included in the purchasing records.

9. Explain how retail purchasing differs from other areas and name three sources of supply somewhat unique to the small retailer.

PURCHASING: ASSESSING NEEDS, EFFECTIVE BUYING, LOCATING SUPPLIERS, SUPPLIER RELATIONSHIPS
UNIT II - FIRST SESSION

SUGGESTED ACTIVITIES

I. Instructor:

   A. Provide participants with objective sheet.

   B. Provide participants with information and assignment sheets.

   C. Provide cassette tapes.

   D. Give test

II. Participant:

   A. Read objectives

   B. Study information sheet and listen to tapes.

   C. Complete assignment sheet.

   D. Insure you can achieve each specific learning objective.

   E. Take test.

INSTRUCTIONAL MATERIALS

I. Included in this unit:

   A. Objectives

   B. Information sheets

   C. Assignment sheet--Objective questions and discussion items

   D. Test

II. References:

A. Baumback, Clifford M., Kenneth Lawyer and Pearce C. Kelly. *How to Organize and Operate a Small Business.* Englewood Cliffs, New Jersey: Prentice-Hall Inc., 1973.

B. Broom, H. N. and Justin G. Longenecker. *Small Business Management.* Cincinnati, Ohio: South-Western Publishing Company, 1975.

C. Klatt, Lawrence A. *Small Business Management: Essentials of Entrepreneurship.* Belmont, California: Wadsworth Publishing Company, Inc., 1973.

D. Stegall, Donald P., Lawrence Steinmetz and John B. Kline. *Managing the Small Business.* Homewood, Illinois: Richard D. Irwin, Inc., 1976.

PURCHASING: ASSESSING NEEDS, EFFECTIVE BUYING, LOCATING SUPPLIERS, SUPPLIER RELATIONSHIPS
UNIT II - FIRST SESSION

INFORMATION SHEET

I. Terms and definitions

A. Purchasing--Acquiring materials, products or services to facilitate the operation of a business

B. Sole source--Using only one supplier for a given material, product or service

C. Purchase order--A formal document used to inform a supplier of your intention to buy from him

D. F.O.B. point--(Free on board)--That point at which ownership passes from the seller to the buyer

E. Wholesaler--An intermediary or middleman who takes title to the goods he distributes

F. Broker--An intermediary who negotiates sales but does not take title

G. Retailer's cooperative--A group of independent retailers who ban together and operate a wholesale business for the primary purpose of increasing their buying power

II. Introduction

A. Purchasing is more inclusive than just a process of exchange. Broadly speaking, it includes:

1. Assessment of your purchasing needs
2. Selecting suppliers and establishing sound relationships
3. Pricing, terms and conditions of sale
4. Receiving, inspection and follow-up
5. Even inventory control

B. Why purchasing is important in your business

1. More than half the average sales dollar goes for purchasing materials, products or services
    a. Wholesalers--at least $.80 on purchasing
    b. Retailers--approximately $.65 on purchasing
    c. Manufacturers--from $.25 to $.50 on purchasing

2. Consider how much more important a $1000 savings in purchasing is than a $1000 increase in sales
    a. If profits to sales are 5%, this sales increase will increase profits by $50
    b. Such a purchasing savings will increase profits by approximately $1000

III. Assessment of needs

A. Effective buying, such that profit goals will be reached, requires careful planning
    1. Develop a clear understanding of intended use of a product or material
    2. Develop a thorough understanding of product characteristics--quality, grades, styles, size, etc.
    3. Develop a thorough knowledge of customer needs
    4. Avoid buying on hunches

B. Equipment
    1. Purchase only to meet a specific need or to improve profitability
        a. Consider all costs--installation, maintenance, training, supplies
        b. Consider leasing as well as renting
    2. Keep a record of serial and model numbers, cost, purchase date, maintenance costs, and warranties

C. Inventory
    1. Goal--have enough to meet customer needs from stock, yet minimize the investment of working capital in inventory
        a. Costs include handling, storage, insurance and taxes
        b. Requires accurate forecasting of sales demand
    2. Inventory turnover--an important measure of effective buying and efficient use of working capital

IV. Four important considerations

A. Buy the "right" quality

1. Quality--suitability of a product or material for its intended use

a. Workmanship, tolerances, strength, finish color and other standards

b. Customer satisfaction is most important

c. For the manufacturer, the finished product reflects the quality of raw material

1) A superior process will not compensate

2) Consider machine operation, quality control and morale of employees

2. Quality is the first and foremost consideration

a. If a product won't serve its intended use, it has $0 value

b. It must be there to buy at all

3. There is also the possibility of too much quality

a. The customer may be unwilling to pay the price

B. Buy the "right" quantity

1. Factors to consider

a. Sales demand and/or production requirements

b. Price levels, availability and delivery

c. Working capital investment in inventory

d. Shipping costs and storage

e. Obsolescence and deterioration

2. Various statistical and mathematical techniques are available, such as the economic order quantity formula

C. Buy at the "right" time

1. Closely related to quantity, many of the same factors should be considered

a. Delivery time and arrangements

b. Storage space and rising prices

    2. Goal--to meet customer demand and/or production schedules

  D. Buy at the "right" price

    1. Should be reasonable and fair to buyer and seller

      a. Consider the total product or value

        1) Quality

        2) Customer service

    2. Often referred to as the last consideration

      a. If quality and service aren't adequate, the price is irrelevant

      b. Look at fairness and reasonableness

V. Locating prospective suppliers

  A. Three key criteria--find an optimum combination

    1. Quality

    2. Customer service

    3. Price

  B. Customer service might include the following

    1. Ability and willingness to meet delivery schedules

    2. Variety of products availability

    3. Special packing or routing arrangements

    4. Ability and willingness to provide technical, promotion and management assistance

    5. Credit availability

    6. Geographic proximity

  C. Locating specific suppliers--where to look

    1. Directories of manufacturers

      a. Poor's Register of Corporations

      b. Thomas' Register

    2. Trade association publications

3. Company catalogs and sales literature
4. Industry buyer guides
5. Traveling salesmen and representatives
6. Chamber of Commerce directories
7. Telephone book classified pages
8. Trade and product shows
9. Advertising for bids
10. Company files

VI. Concentration of purchases

A. Why use two or more sources of supply?

1. Fosters healthy competition
    a. Lower prices, better customer services
    b. Supplier appreciates your business/"clout"
2. If one supplier fails, you will have another to fall back on
    a. Strike, fire, shortage
    b. Change of product lines, bankruptcy
3. Greater variety of materials, products, quality and service, technical assistance
4. Broader exposure for your company

B. Why use a single or sole source of supply?

1. There is not enough volume to keep several interested--must concentrate
2. Develop a healthy, mutually beneficial relationship
    a. Supplier knows your needs and situation
    b. Special or additional management or marketing assistance
    c. Prompt shipping, special routing and packaging
    d. Quantity price breaks and lower shipping costs
    e. Financial assistance if you get in a bind

3. Franchised or dealership businesses may be obligated to purchase from a single source

C. Ideal arrangement--concentrate your purchases to the extent that special treatment is warranted, yet diversify enough to insure an alternate source is available

VII. Sound relationships with suppliers

A. Why they are important

1. The smaller the business, the more important it is to cultivate good relations

    a. The supplier may be more important to the small buyer than vice-versa.

    b. Small volume purchases contribute little to sales and profits

    c. It takes a period of time to establish good relations

2. Suppliers can be especially important during recessionary periods and when there are shortages

    a. When you experience a sudden surge in demand

    b. Emergency breakdown

3. Suppliers can provide invaluable technical and management assistance

    a. Alert you to new trends in the industry

    b. Intimate contact with your competition

    c. Cost reduction and improvement suggestions

B. Suggestions for developing sound supplier relationships

1. Generally--deal fairly, honestly, and ethically

2. Specifically:

    a. Pay all bills promptly and take all cash discounts

        1) Enhances your reputation

        2) Financially prudent to do so

    b. Respect the confidential nature of price lists and quotations or bids, and data on newly developed products or processes

    c. Refuse gifts that might render you indebted to a supplier, courteously explaining your rationale

- d. Don't make all orders "RUSH!"
- e. Afford salesmen and supplier representatives courteous, considerate treatment
- f. Promptly advise suppliers of undershipments, damages, complaints, and even overshipments
- g. Insure prices are reasonable and fair, but don't be a "chisler" to get special concessions and discounts
- h. Insure that reciprocal buying and selling has a sound economic base

VIII. Some practical aspects of purchasing

- A. The purchase order
  - 1. A standard form should be used
  - 2. Pre-printed forms are available
    - a. Two copies go to the vendor--an original plus a copy to be returned to you as an acknowledgement or confirmation
    - b. One copy retained for follow-up, comparison with the invoice and purchasing records
    - c. A purchase order becomes a binding contract when accepted
  - 3. The purchase order should include:
    - a. Supplier address, billing and shipping address
    - b. Date, order number, delivery date requested
    - c. F.O.B. point, terms and routing requested
    - d. Item description--part, model, serial number
    - e. Quantity ordered and unit price
    - f. Authorized signature
- B. F.O.B. point--where ownership changes
  - 1. The owner pays the freight and is responsible for any damages or lossed incurred
  - 2. A negotiation item

3. F.O.B. shipping point or freight collect

a. Title passes to the buyer when the seller turns the shipment over to a carrier

b. Seller may pre-pay the freight bill as a convenience and "bill back" the buyer

c. Gives buyer more control over transportation arrangements

4. F.O.B. destination or delivered

a. Title passes to the buyer when delivery is made at buyer's place of business

b. Seller pays freight

C. Important purchasing records

1. Supplier's names and addresses, catalogs, literature, rating and past performance

2. Prices, terms, delivery and specifications on frequently ordered items

a. Can be included on store cards

b. Suppliers may also be on store cards

c. Usage rate, order quantity and timing

3. Outstanding orders and orders received

IX. Purchasing for the retail firm

A. It has developed into a skilled occupation or art

1. Consumer demand can vary from time to time and community to community

2. Key--discovering consumer needs and wants

a. Be sensitive to customer's requests, suggestions, returns and complaints

b. Salesperson's suggestions and feedback

c. Observe the competition--large progressive store

d. Wholesaler suggestions

e. Buying trips to trade shows, fairs, centers

B. Most retail purchasing is through a merchant middleman or wholesaler

  1. A reliable wholesaler is a valuable asset

  2. "Cash and carry" wholesaler

     a. Retailer may have to leave his business but can save ordering and clerical costs

     b. An opportunity to inspect goods beforehand

     c. Should carry a broad line of goods

  3. Merchandise brokers

     a. Brings buyer and seller together at no cost to retail buyer

     b. Vendor pays brokerage commission

     c. Can provide broad exposure and save time

C. Sources of supply somewhat unique to retailers

  1. Trade shows

     a. Often held annually at principle market centers in exhibition halls rented by manufacturers and wholesalers

     b. Trade associations often have one annually

     c. Affords an opportunity to examine merchandise and place orders

  2. Merchandise marts

     a. Large expansive facilities for displaying the wares of leading vendors

     b. Chicago Merchandise Mart--7 miles of display

     c. Atlanta Merchandise Mart--over 400 lines of furniture, home furnishings, appliances, apparel, luggage, jewelry, and gifts

     d. Dallas Trade Mart--160 showrooms

     e. Other cities having marts include St. Louis, Los Angeles and San Francisco

D. Retail cooperative--cooperative buying

  1. When a group of independent retailers ban together to own and operate a wholesale business in order to concentrate buying power

   a. Other benefits: promotional, marketing and management assistance

   b. Retailers usually pay dues to the cooperative

2. Often, a cooperative proves to be a beneficial arrangement for the small, independent retailer with limited buying power and experience

   a. Facilitates competition with large chains and big business

   b. Groceries have used them successfully and such areas as hardwares and drugs are doing it

PURCHASING: ASSESSING NEEDS, EFFECTIVE BUYING, LOCATING SUPPLIERS, SUPPLIER RELATIONSHIPS
UNIT II - FIRST SESSION

ASSIGNMENT SHEET

1. Will an increase in sales of $5000 contribute as much to profits as as a decrease of $5000 in purchasing costs? Discuss.

2. Effective purchasing means buying the "right":

   a. ____

   b. ____

   c. ____

   d. ____

3. Which of the considerations in item #2 do you rate first and which last? Why?

4. What criterion is most important in evaluating suppliers and why do you think so?

5. List five sources of information for locating potential suppliers.

   a. ____

   b. ____

   c. ____

   d. ____

   e. ____

6. Name three reasons why it may be unwise to utilize only one source of supply.

   a. ____________________

   b. ____________________

   c. ____________________

7. A small retailer comments, "If that supplier wants my business, he can wait a few extra days for me to pay my bill." Discuss.

8. How hard a bargain should you drive in an effort to get a "low" price?

9. List five items that should be included on a purchase order.

   a. ____________________

   b. ____________________

   c. ____________________

   d. ____________________

   e. ____________________

10. Why might "F.O.B. destination" be to the advantage of the buyer?

11. Name four sources of information for discovering your consumer's needs and wants.

   a. ____________________

   b. ____________________

   c. ____________________

   d. ____________________

12. List two sources of supply somewhat unique to retailers.

   a. ____________________

PURCHASING: ASSESSING NEEDS, EFFECTIVE BUYING, LOCATING SUPPLIERS, SUPPLIER RELATIONSHIPS
UNIT II - FIRST SESSION

TEST

Match the following terms with the definitions listed below:

a. F.O.B. point	d. wholesaler
b. broker	e. retailer's cooperative
c. purchasing	f. purchase order

_____ 1. A formal document used to inform a supplier of your intention to buy from him.

_____ 2. An intermediary who negotiates sales but does not take title.

_____ 3. A group of independent retailers who ban together and operate a wholesale business for the primary purpose of increasing their buying power.

_____ 4. An intermediary or middleman who takes title to the goods he distributes.

_____ 5. Acquiring materials, products or services to facilitate the operation of a business.

_____ 6. That point at which ownership passes from the seller to the buyer.

7. Which of the following types of businesses are likely to spend more than $.50 of every sales dollar on purchasing?

   a. Retailers

   b. Wholesalers

   c. Both a. and b.

8. Which of the following best describes effective inventory control?

   a. Stock 25% more than you'll ever need

   b. Maintain an inventory turnover of 5

   c. Have enough on hand to meet customer demands yet minimize your investment in inventory

9. Which of the following considerations is most important?

   a. Price

   b. Quantity

   c. Quality

   d. Timing

10. In selecting prospective suppliers, you should seek to find an optimum combination of:

    a. Timing and price

    b. Price and delivery

    c. Quality, customer service and price

    d. Quantity and proximity

11. Which of the following is a reason why you might wish to use a sole source of supply?

    a. Competition is healthy

    b. Greater variety of goods to choose from

    c. You will always have a supplier to fall back on

    d. Supplier may know your needs and situation better

12. Why are sound relationships with suppliers important?

    a. Small volume purchases contribute heavily to the suppliers sales and profits

    b. The supplier is required by law to treat you like he would treat any of his customers

    c. Suppliers may provide invaluable technical and management assistance

    d. All the above

13. What can you do to develop sound supplier relationships?

    a. Don't mark all orders "RUSH"

    b. Keep price lists and quotes confidential

    c. Pay all bills promptly

    d. Afford salesmen courteous, considerate treatment

    e. All the above

14. Two copies of a purchase order should be sent to a supplier because:

    a. The Federal Trade Commission requires it

    b. One copy can be returned to you in confirmation

    c. The supplier can use one copy as a packing list

    d. One copy may get lost

15. The F.O.B. point is
    - a. The Federal Organization of Bureaucracy
    - b. A type of specification used in industrial buying
    - c. That point at which ownership passes to buyer
    - d. That point at which ownership passes from the seller to the carrier
16. Who would be responsible for damages occurring during shipment if the goods were shipped F.O.B. shipping point?
    - a. Buyer
    - b. Seller
17. Why might a small, independent retailer join a cooperative?
    - a. Limited buying power and experience
    - b. Promotional and management assistance
    - c. Both a. and b.

PURCHASING: ASSESSING NEEDS, EFFECTIVE BUYING, LOCATING SUPPLIERS, SUPPLIER RELATIONSHIPS
UNIT II - FIRST SESSION

ANSWERS TO TEST

1. f
2. b
3. e
4. d
5. c
6. a
7. c
8. c
9. c
10. c
11. d
12. c
13. e
14. b
15. c
16. a
17. c

SPACE UTILIZATION AND ORGANIZATIONAL STRUCTURE
UNIT II - FIRST SESSION

UNIT OBJECTIVE

After completion of this unit, the participant should be able to plan a store layout which will meet the two basic objectives of space utilization for all types of business. He should further be able to identify the importance of organizational structure to the successful operation of a business and explain how it can best be implemented. This knowledge will be evidenced through demonstration and by scoring eighty-five percent on the unit test.

SPECIFIC OBJECTIVES

After completion of this unit, the participant should be able to:

1. Match terms associated with space utilization and organizational structure to correct definitions.
2. Name two objectives of physical arrangement or layout that are the same for all types of firms.
3. Name four factors always present when planning proper space utilization regardless of the type of business.
4. List three of the five guidelines for business layout in general.
5. Discuss the five special considerations for planning layout in a retail business.
6. Briefly explain two of the three governing principles for space utilization in a retail business.
7. Distinguish between destination traffic and shopping traffic.
8. Match classifications of goods to correct response regarding their location in the selling area.
9. Diagram the two basic interior layout arrangements.
10. Identify the two primary stages of growth for the average small business.
11. List the two stages in the development of an organizational structure.
12. List the five steps involved in planning a business organizational structure.

13. Briefly explain three of the seven principles for development of a good organization.

14. Distinguish between a structured and semi-structured organization.

15. Explain how a businessman can effectively use the informal organization of a business to his advantage.

SPACE UTILIZATION AND ORGANIZATIONAL STRUCTURE
UNIT II - FIRST SESSION

INSTRUCTIONAL MATERIALS

I. Included in this unit:

   A. Objectives

   B. Information sheet

   C. Transparency masters

      1. TM #1 Space Values in Relation to Sales

      2. TM #2 Grid Layout

      3. TM #3 Free-flow Layout

      4. TM #4 Formal Line Organization Chart

      5. TM #5 Semi-structured Organization/Formal Organizational Structure

   D. Job Sheet #1--Checklist for Interior Arrangement and Display

   E. Test

II. Audio-visuals--Cassette tape

III. References

   A. Stegall-Steinmetz-Kline. Managing the Small Business. Homewood, Illinois: Richard D. Irwin, Inc.

   B. Steinhoff. Small Business Management Fundamentals. New York: McGraw-Hill Book Company.

   C. Pickle-Abrahamson. Small Business Management. Santa Barbara, California: John Wiley & Sons, Inc.

   D. Baumback-Lawyer-Kelley. How to Organize and Operate a Small Business. Englewood Cliffs, New Jersey: Prentice-Hall.

   E. James-Walker-Etzel. Retailing Today. New York: Harcourt Brace Jovanovich, Inc.

SPACE UTILIZATION AND ORGANIZATIONAL STRUCTURE
UNIT II - FIRST SESSION

INFORMATION SHEET

I. Terms and definitions

   A. Layout--The planned physical arrangement of the business firm's interior

   B. Organization chart--A formal chart depicting the flow of authority and responsibility in an organization

   C. Informal organization--The informal "system" of employees and employee interactions which develop in any work environment

   D. Organizing--The management function of correlating the basic components of the firm--the people, tasks, and materials--so that they follow the planned course of action and achieve the firm's objectives

II. In all types of firms, the objectives of layout or physical arrangement are the same:

   A. Maximize profits

   B. Maximize efficiency

III. The same principles of layout apply to various types of businesses, because the following four factors are always present:

   A. People--workers, customers, management

   B. Equipment--machinery or fixtures

   C. Goods--materials, merchandise, or supplies

   D. The building and its features--windows, doors, stairs and so forth

IV. Guidelines considered in arrangement and layout for all types of business

   A. Logical and optimum psychological arrangement of equipment and merchandise with reference to production flow for manufacturing and to customer buying habits for merchandising

   B. Maximum use of light, ventilation, and heat to take full advantage of natural conditions resulting from the building construction

   C. Maximum efficiency in the use of equipment

   D. Location of materials or merchandise in such a way as to be readily available to workers or customers

E. Maximum facilities for a clear view of the establishment by management, workers or customers

V. Other special considerations for retail firms include:

A. Customer buying habits

B. Merchandise display

C. Organization of merchandise

D. Separation of activities

E. Full utilization of space

VI. The three governing principles for space utilization

A. Most new shoppers turn to the right when entering a store

B. Space in the front of the store will have more customer traffic than rear sections. Front space is, accordingly, more valuable for sales (TM #1)

C. The type of merchandise offered must be considered because of its influence on customer shopping habits

VII. Destination traffic and shopping traffic

A. Destination traffic--those who know what they want and try to go directly to that item

B. Shopping traffic--people with no specific items in mind who thus move from place to place as their interest is caught by goods on display

VIII. Classification and arrangement of merchandise in small retail stores

A. Impulse goods

1. Bought as a result of attractive visual merchandising displays

2. Should be placed near the entrance in small stores or on main aisles in larger stores

B. Convenience goods

1. Bought with high frequency and in small quantities

2. Should be placed in easily accessible feature locations along main aisles

C. Necessities or staple goods

1. Bought because of an actual need

2. Should usually be placed to the rear of the store

D. Utility goods

   1. Bought for home use such as brooms, dust pans, etc.

   2. Should be placed as impulse items up front or along main aisles

E. Luxury and major expense items

   1. Bought after careful planning and considerable shopping around

   2. Should be placed at some distance from entrance

IX. The two basic interior layout arrangements

A. Grid layout (rectangular arrangement--features a main aisle and secondary aisles which are located at right angles to the main aisle. (See TM #2)

B. Free-flow arrangement--random arrangement that permits merchandise to be arranged in a pattern that allows easy movement from one line of merchandise to other related lines (See TM #3)

X. The two primary stages of growth for the average small business

A. The direct supervision stage--up to 25-30 employees

   1. Owner-manager directly supervises almost all work done by employees

   2. Few control measures needed as problems are handled firsthand

B. Supervised supervisors stage--up to 200 employees

   1. Lowest level work done in the organization is supervised by a foreman or supervisor who reports to the owner-manager

   2. The owner-manager no longer supervises operations directly but supervises them through the capacities of other people (See TM #4)

XI. The two stages in the development of an organizational structure

A. A division, by analysis, of the particular business into the functions or activities that must be performed

B. Assignment of each to certain individuals

XII. Five steps involved in planning a business organizational structure

A. Write down what the business must accomplish to be successful

B. Subdivide or list all the activities that must be performed

C. These activities should then be grouped in related activities such as selling, producing and recording

D. For the new business, effort should then be made to secure individuals well qualified to perform each of these functions

E. For an established business, the job is to assign functions and subfunctions to members of the firm according to their respective abilities, capacities, and interests, being careful not to overload the better-qualified individuals

XIII. Seven principles for development of a good organization

A. A good organization is designed to accomplish specific purposes

B. Only one person responsible for any given activity

C. Authority must be clearly spelled out

D. Decision-making should be accomplished at the lowest level possible

E. Communication is, desirably, a two-way street, working both from the top down and from the bottom up

F. Employee performance in the organization is monitored and controlled

G. The limits of control of any individual within the organization must be made clear

XIV. Structured and semi-structured organization (See TM #5)

A. Structured organization--A well-planned organization physically evidenced with written job descriptions for employees and a formal organization chart depicting relationships among personnel

B. Semi-structured organization--An informally organized structure which may or may not include a formal organization chart. The owner-manager typically assigns responsibilities orally, and all employees are aware of the responsibilities of others through informal interactions

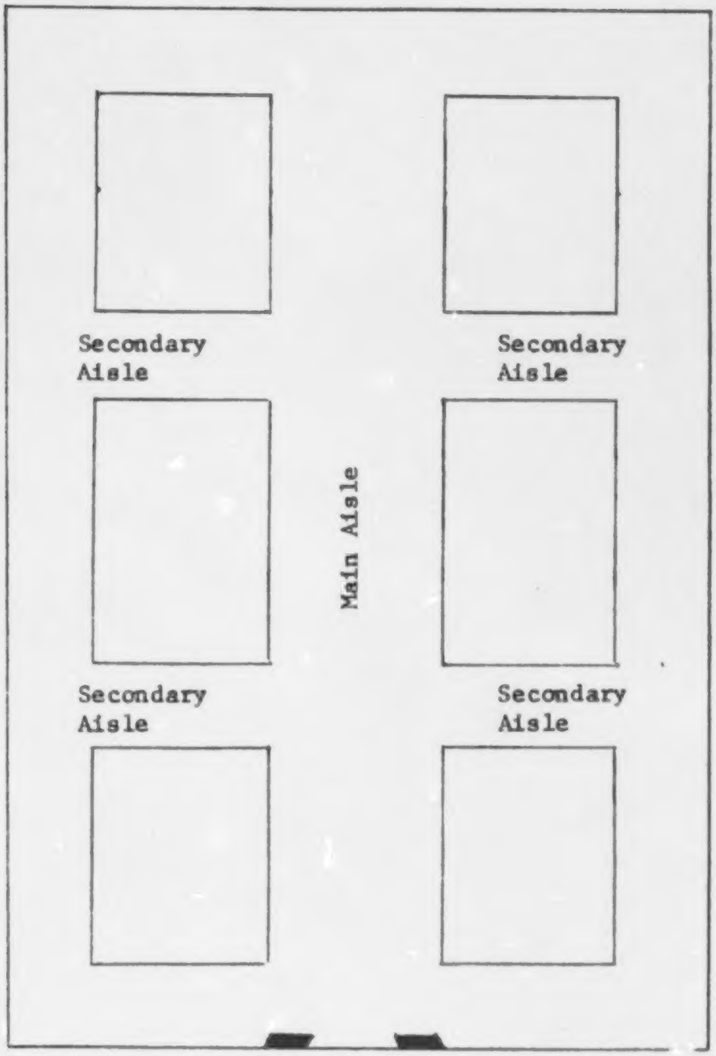
XV. The informal organization as defined is a myriad of interpersonal relationships that develop between people who must work together. Frequently through natural selection, informal leaders emerge who wield a great amount of power. It is to the businessman's advantage to find out who these leaders are and use their abilities to positively orient the employee's efforts

SPACE VALUES IN RELATION TO SALES

Sixth 5%	Fifth 6%	Sixth 5%
Fourth 10%	Third 12%	Second 15%
Third 12%	Second 15%	First 20%

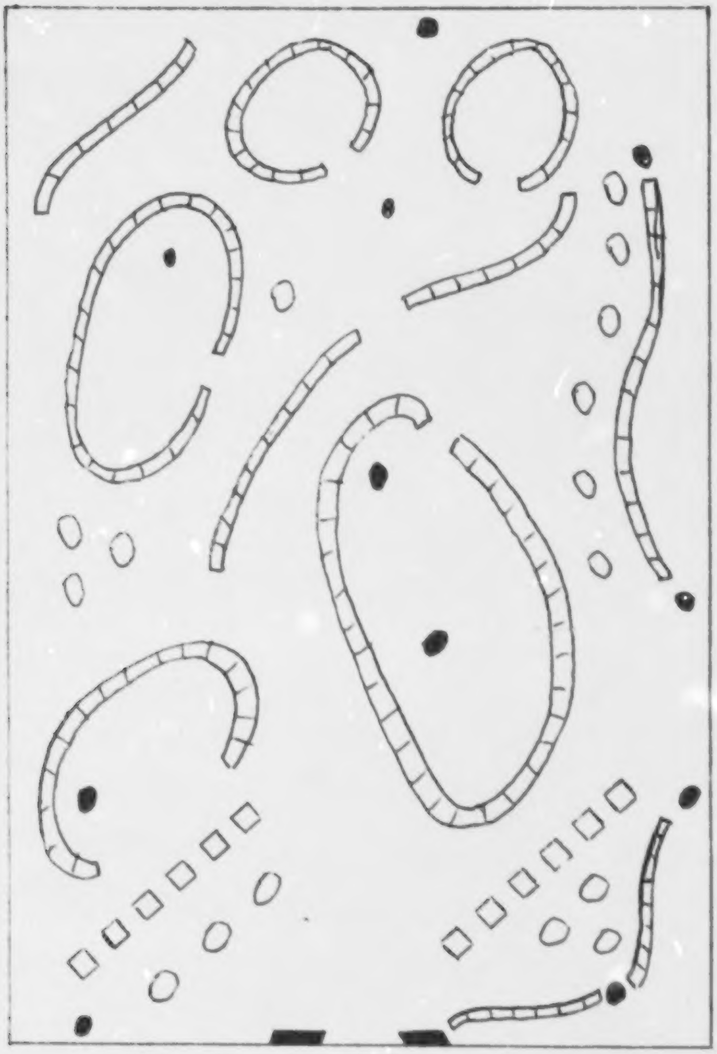
Store Entrance

GRID LAYOUT


Secondary Aisle
Secondary Aisle
Main Aisle
Secondary Aisle
Secondary Aisle

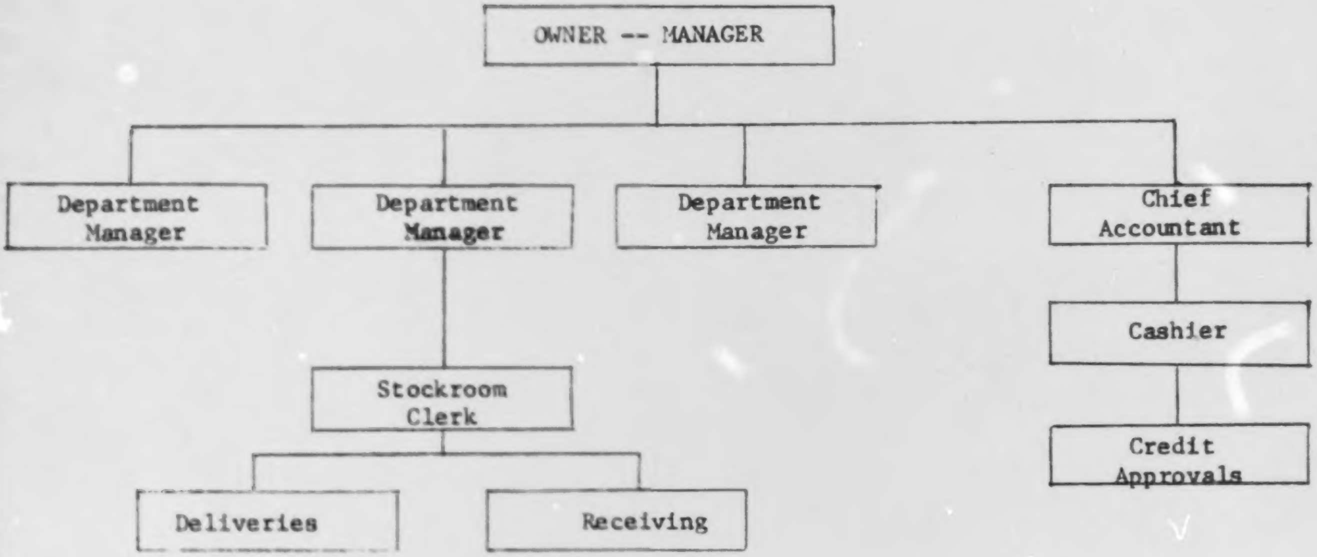
Store Entrance

FREE-FLOW LAYOUT

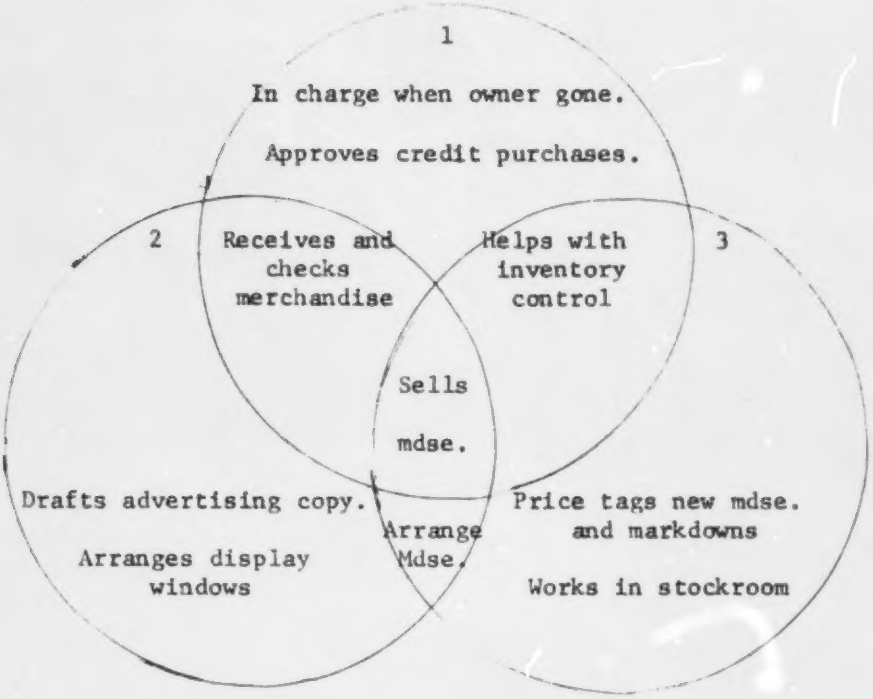


Store Entrance

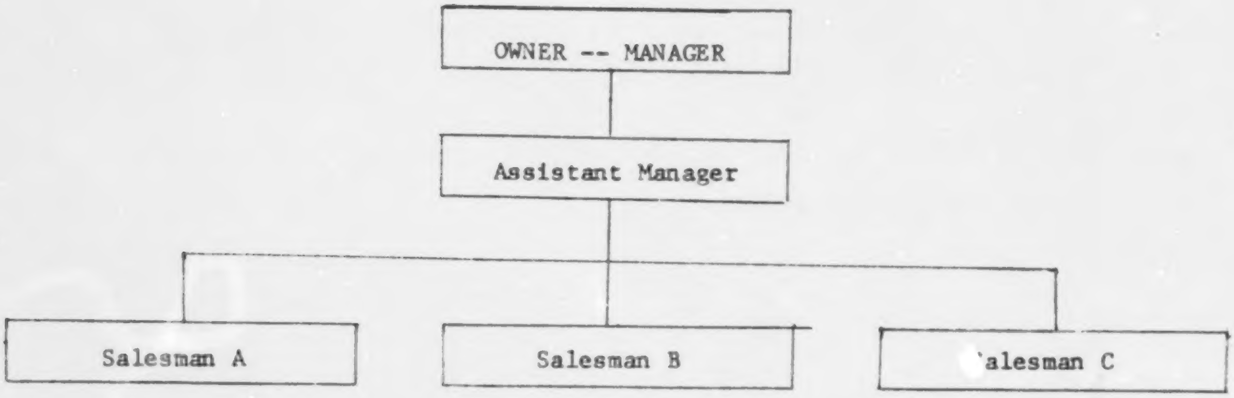
FORMAL LINE ORGANIZATION CHART


OWNER -- MANAGER
Department Manager
Department Manager
Department Manager
Chief Accountant
Stockroom Clerk
Cashier
Credit Approvals
Deliveries
Receiving

SEMI-STRUCTURED ORGANIZATION


1
In charge when owner gone.
Approves credit purchases.
2
Receives and checks merchandise
Helps with inventory control
3
Sells mdse.
Drafts advertising copy.
Arranges display windows
Arrange Mdse.
Price tags new mdse. and markdowns
Works in stockroom

FORMAL ORGANIZATIONAL STRUCTURE


OWNER -- MANAGER
Assistant Manager
Salesman A
Salesman B
Salesman C

SPACE UTILIZATION AND ORGANIZATIONAL STRUCTURE
UNIT II - FIRST SESSION

JOB SHEET #1--CHECKLIST FOR INTERIOR ARRANGEMENT AND DISPLAY

	YES	NO
I. Layout		
1. Are your fixtures low enough and signs so placed that the customer can get a bird's-eye view of the store and tell in what direction to go for wanted goods?	____	____
2. Do your aisle and counter arrangements tend to stimulate a circular traffic flow through the store?	____	____
3. Do your fixtures (and their arrangement), signs, lettering, and colors all create a coordinated and unified effect?	____	____
4. Before any supplier's fixtures are accepted, do you make sure they conform in color and design to what you already have?	____	____
5. Do you limit the use of hanging signs to special sales events?	____	____
6. Are your counters and aisle tables not overcrowded with merchandise?	____	____
7. Are your ledges and cashier/wrapping stations kept free of boxes, unneeded wrapping materials, personal effects, and odds and ends?	____	____
8. Do you keep trash bins out of sight?	____	____
II. Merchandise Emphasis		
1. Do your signs referring to specific goods tell the customer something significant about them, rather than simply naming the products and their prices?	____	____
2. For your advertised goods, do you have prominent signs, including tear sheets at entrances, to inform and guide customers to their exact location in the store?	____	____

	YES	NO
3. Do you prominently display both advertised and nonadvertised specials at the ends of counters as well as at the point of sale?		
4. Are both your national and private brands highlighted in your arrangement and window display?		
5. Wherever feasible, do you give the more colorful merchandise in your stock preference in display?		
6. In the case of apparel and home furnishings, do the items that reflect your store's fashion sense or fashion leadership get special display attention at all times?		
7. In locating merchandise in your store, do you always consider the productivity of space--vertical as well as horizontal?		
8. Is your self-service merchandise arranged so as to attract customers and assist them in selection by means indicated below:		
a. Is each category grouped under separate sign?		
b. Is the merchandise in each category arranged according to its most significant characteristic--weather, color, style, size, or price?		
c. In apparel categories, is the merchandise arranged by price lines or zones to assist the customer in making a selection quickly?		
d. Is horizontal space usually devoted to different items and styles within a category (vertical space being used for different sizes--smallest at the top, largest at the bottom)?		
e. Are impulse items interspersed with demand items and not placed across the aisle from them, where many customers will not see them?		

Source: Wingate and Helfant. Small Store Planning for Growth. Washington, D.C.: Small Business Administration.

SPACE UTILIZATION AND ORGANIZATIONAL STRUCTURE
UNIT II - FIRST SESSION

TEST

1. Match the terms on the right to the correct definition.

___ a. Correlating the basic components of the firm so that they follow a planned course of action.

___ b. The planned physical arrangement of the business firm's interior.

___ c. Interactions among employees which develop in any work environment.

___ d. Formal depiction of the flow of authority and responsibility in an organization.

1. Layout
2. Organization chart
3. Informal organization
4. Organizing

2. Name the two objectives of physical arrangement or layout that are the same for all types of firms.

a.

b.

3. Name the four factors always present when planning proper space utilization regardless of the type of business.

a.

b.

c.

d.

4. Identify which of the following should be considered a guideline in the arrangement and layout of any type of business by placing an "X" to the left of the proper response.

___ a. Logical and optimum psychological arrangement of equipment and merchandise in relation to the business's objectives

___ b. Location of materials or merchandise in such a way as to be readily available

___ c. Maximum facilities for a clear view of establishment vital

5. Displaying associated lines of merchandise close together represents which of the following special considerations for layout in retail firms?

____ a. Physical surroundings

____ b. Separation of activities

____ c. Organization of merchandise

6. Which of the following is not a governing principle for space utilization in a retail business?

____ a. Most new shoppers turn to the left when entering a store

____ b. Space in the front of the store is more valuable for sales

____ c. The type of merchandise offered must be considered because of its relationship to customer shopping habits

7. Distinguish between destination traffic and shopping traffic by placing an "X" to the left of the statements representing destination traffic.

____ a. Moves clockwise through the store

____ b. Goods with high gross margins and low replacement rates should be arranged on the right side of the store

____ c. Goods with low gross margins and high replacement rates should be located to the left of the store entrance

____ d. Moves counter-clockwise through the store

8. Match the location of merchandise listed on the right to correct classification of goods.

____ a. Impulse goods

____ b. Convenience goods

____ c. Necessities or staples

____ d. Utility goods

____ e. Luxury items

1. Should be placed near the entrance or main aisles

2. Should usually be placed to the rear of the store

3. Should be placed in easily accessible feature locations along main aisles

4. Should be placed at some distance from entrance

9. Diagram the two basic interior layout arrangements.

   a. Grid layout

   b. Free-flow arrangement

10. Describe the first stage in the growth of the average small business.

11. List the two stages in the development of an organizational structure.

    a.

    b.

12. List the five steps involved in planning a business organizational structure.

    a.

    b.

    c.

    d.

    e.

13. Briefly explain the following principles for development of a good organization.

    a. Authority must be clearly spelled out.

    b. Decision-making should be accomplished at the lowest level possible.

13. c. Communication is a two-way street.

14. Distinguish between a structured organization and semi-structured organization by placing an "X" to the left of the statement representing a structured organization.

    ____ a. Written job descriptions are prepared for employees

    ____ b. Responsibilities typically assigned orally

15. Explain how a businessman can effectively use the informal organization of a business to his advantage.

SPACE UTILIZATION AND ORGANIZATIONAL STRUCTURE
UNIT II - FIRST SESSION

ANSWERS TO TEST

1. a. 4
   b. 1
   c. 3
   d. 2
2. a. Maximize profits
   b. Maximize efficiency
3. a. People
   b. Equipment
   c. Goods
   d. The building and its features
4. a. X
   b. X
   c. X
5. c. X
6. a. X
7. a. X
   c. X
8. a. 1
   b. 3
   c. 2
   d. 1
   e. 4
9. a. See TM #2
   b. See TM #3

10. The direct supervision stage
    a. Owner-manager directly supervises almost all work done by employees
    b. Up to 25-30 employees maximum
    c. Few control measures needed as problems are handled firsthand

11. a. A division of the business into functions or activities that must be performed
    b. Assignment of each to certain individuals

12. a. Write down what the business must accomplish to succeed
    b. Subdivide or list all the activities that must be performed
    c. These activities should then be grouped in related activities
    d. New businesses will seek individuals qualified to perform each function
    e. Established businesses will assign functions to best-qualified employees

13. a. Authority must be clearly spelled out
        1) Can be thought of as the requirement to clearly assign work responsibility to others
        2) Many times the small business manager will make a subordinate responsible for a job but will fail to give him the authority to accomplish the job
    b. Decision-making should be accomplished at the lowest level possible.
        1) Frees up the time of the manager of the small business
        2) Permits the person who has the most knowledge of a situation to make the decision quickly and resolve the issue
        3) Requiring a higher level manager to make the decision wastes time of both the employee and employer
    c) Communication is a two-way street
        1) The boss should consult the subordinates for ideas they might have about their job, particularly problems which they must face.
        2) It will make them feel important
        3) Occasionally subordinates can produce good solutions because they look at a given problem from a different viewpoint.

14. a. X

15. Find out who the leaders are and use their abilities to positively orient

BUSINESS AND PAYROLL TAXES
UNIT II - SESSION TWO

UNIT OBJECTIVE

Upon completion of this unit, the participant should be able to identify and describe the various taxes for which the business serves as a government collection agent as well as those taxes it must pay in its capacity as taxpayer. He should further be able to discuss the records and forms necessary to comply with government regulations regarding taxes. Finally, he should recognize the impact of taxation on decision making for the small business.

SPECIFIC OBJECTIVES

After completion of this unit, the participant should be able to:

1. Name the two legal capacities of a business associated with the collection and payment of taxes.
2. Name three taxes collected by the business as an agent of government.
3. Name the four most important taxes imposed on business by government.
4. Discuss the purpose of each of four forms used for reporting federal income taxes withheld from employees' salaries.
5. List three principal federal Social Security programs included within the Federal Insurance Contribution Act (FICA)
6. Name three of four kinds of data accumulated by business in compliance with government regulation regarding taxes withheld from employees.
7. Match the three commonly used forms for compiling data on taxes withheld from employees' earnings to their correct definitions.
8. Describe the tax liabilities imposed on business that directly relate to payroll.
9. Explain the regulations that determine who must pay federal and state unemployment taxes.
10. List the three basic forms of business organization generally recognized for determining income tax liabilities as business and/or personal.
11. List two of three regulations restricting the adoption of the "small business corporation" as a form of business organization.

12. Name the two forms of business organization that are required to prepare and submit tax returns but which are required to pay no income taxes.

13. Name the two forms of business organization that require the owner(s) to estimate and pay FICA taxes on business income.

14. Describe three of five areas where decision making is closely related to the problems and costs of taxation.

BUSINESS AND PAYROLL TAXES
UNIT II - SESSION TWO

INSTRUCTIONAL MATERIALS

I. Included in this unit:

   A. Objectives

   B. Information sheets

   C. Transparency masters

      1. TM 1--Reporting Forms for Federal Income Taxes Withheld--Part I

      2. TM 2--Reporting Forms for Federal Income Taxes Withheld--Part II

      3. TM 3--Forms Commonly Used to Maintain Tax Data

   D. Assignment Sheet

   E. Test

II. Audio-visuals--Cassette tape

III. References

   A. Baumback-Lawyer-Kelley. How to Organize and Operate a Small Business. Englewood Cliffs, New Jersey: Prentice-Hall.

   B. Broom-Longenecker. Small Business Management. Cincinnati, Ohio: South-Western Publishing Co.

   C. Freeman-Hanna-Kahn-Weaver. Accounting 10/12. New York: McGraw-Hill Book Company.

BUSINESS AND PAYROLL TAXES
UNIT II - SESSION TWO

INFORMATION SHEET

I. Two legal capacities of a business associated with tax regulations

   A. Agent--The collection and payment of taxes owed by others

   B. Debtor--Tax obligations associated with and paid by the business

II. Taxes collected by business as an agent of government

   A. Income taxes withheld from employees' earnings

   B. Social Security tax (FICA) liability of employees

   C. Sales tax--Taxes imposed on consumers by state and local governments and collected by businesses

III. Taxes imposed on business by government

   A. Payroll tax expenses associated with employee earnings

      1. FICA--An amount equal to the tax on employees earnings

      2. FUTA--Unemployment taxes imposed by federal and/or state governments

   B. Income tax imposed on corporate forms of organization on both the state and federal level

   C. Excise tax--Tax imposed on certain occupations or for the sale and use of some items

   D. State and local taxes

      1. Real estate taxes

      2. Personal property taxes

      3. License fees

IV. Four reporting forms for federal income taxes withheld from employees' earnings (See TM 1 and TM 2)

   A. W-4--Employee Withholding Exemption Certificate

   B. W-2--Employee Withholding Statement

   C. 941--Employer's Quarterly Federal Tax Return

   D. W-3--Reconciliation of Income Tax Withheld and Transmittal of Tax Statements

V. Three principal federal Social Security programs included within the Federal Insurance Contribution Act (FICA)

   A. Old-age, survivors and disability insurance program

   B. Federal unemployment insurance program

   C. Federal health insurance for the aged (Medicare)

VI. Data on taxes withheld from employees that is required by government regulation

   A. Number of persons employed during the year

   B. Amount of wages paid to each person subject to withholding

   C. Periods of employment of each person

   D. Amounts and dates of wages and salary payments and taxes withheld

VII. Three forms commonly used to maintain data on taxes withheld from employees' earnings

   A. Payroll register

   B. Employee earnings record

   C. Employee pay statement

VIII. Taxes imposed on business relating to payroll

   A. FICA--employer must match the employees tax liability

   B. Unemployment taxes--(FUTA)

      1. State unemployment taxes

      2. Federal unemployment taxes

IX. Regulations determining who must pay federal and state unemployment taxes

   A. Employs one or more persons in each of 20 days in a year, each day being a different week/OR

   B. Business with a payroll of at least $1,500 in a calendar year

X. Three basic forms of business organization recognized for determining income tax liabilities as business and/or personal

   A. Corporation

   B. Partnership

   C. Small Business Corporation (Subchapter S corporation)

XI. Regulations restricting the adoption of the small business corporation

- A. Must have no more than ten stockholders, none of whom can be a corporation, and all must give their consent
- B. No more than 20 percent of the corporate income can be derived from investments such as dividends, interest, or rent
- C. More than 20 percent of the corporate income must be derived from business operations within the United States

XII. Forms of business organization that are required to prepare and submit tax returns but which are required to pay no income taxes

- A. Partnerships
- B. Small business corporations

XIII. The two forms of business organization that require the owner(s) to estimate and pay FICA taxes on business income

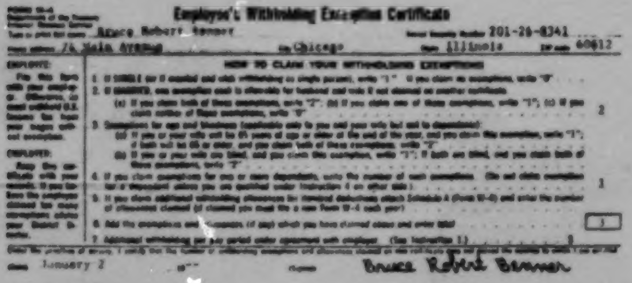
- A. Proprietorships
- B. Partnerships

XIV. Specific areas where taxation should be considered in the decision making process

- A. Initial decisions regarding organizational structure, processes, product lines, etc.
- B. Location decisions
- C. Financing decisions
  - 1. Effect of taxes on earnings retained for expansion, etc.
  - 2. Borrowed capital-interest deductable as a business expense
  - 3. Leasing or buying to take advantage of rents or depreciation
- D. Inventory valuation decisions
- E. Depreciation decisions

REPORTING FORMS FOR FEDERAL INCOME TAXES WITHHELD

EXHIBIT 1--Form W-4
Employer's
Withholding
Exemption
Certificate



Employee's Withholding Exemption Certificate

Bruce Robert Benner
Social Security Number 201-26-8341
74 Main Avenue
Chicago
Illinois
60612

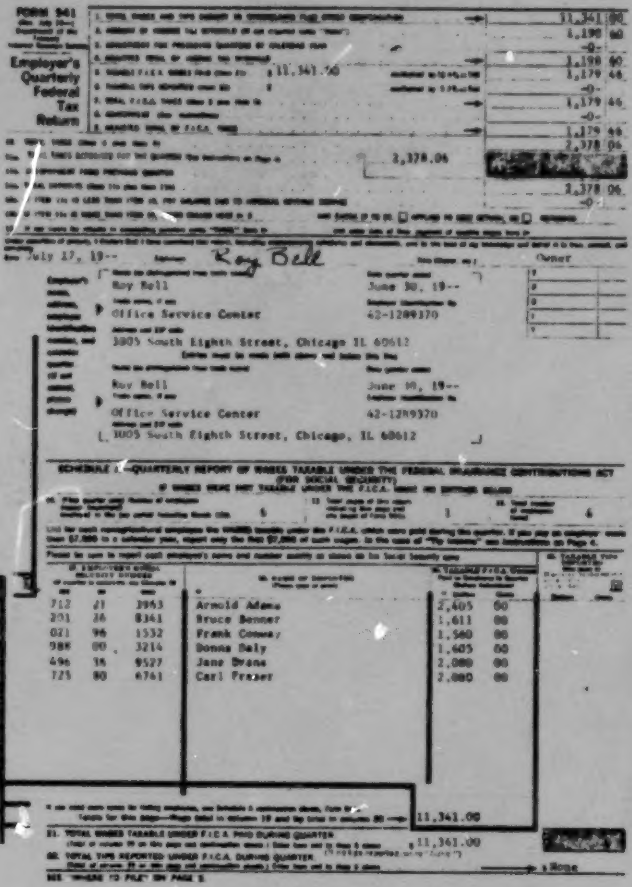
HOW TO CLAIM YOUR WITHHOLDING EXEMPTIONS

2	2
4	1
6	3

January 2
Bruce Robert Benner

Form W-4 showing an exemption for husband, wife, and one dependent.

Form 941 reporting income taxes withheld and FICA taxes for calendar quarter ending June 30, which covers the April, May, and June payrolls.



FORM 941
Employer's Quarterly Federal Tax Return

1		11,341 00
2		1,198 60
3		-0-
4		1,198 60
5	$11,341.00	1,179 46
6		-0-
7		1,179 46
8		-0-
9		1,179 46
10		2,378 06
11a	2,378.06	
11c		2,378 06
12		-0-

July 17, 19--
Roy Bell
Owner

Roy Bell
June 30, 19--
Office Service Center
42-1289370
3005 South Eighth Street, Chicago IL 60612

Roy Bell
June 30, 19--
Office Service Center
42-1289370
3005 South Eighth Street, Chicago, IL 60612

SCHEDULE A—QUARTERLY REPORT OF WAGES TAXABLE UNDER THE FEDERAL INSURANCE CONTRIBUTIONS ACT (FOR SOCIAL SECURITY)

6 1 6

712	21	3963	Arnold Adams	2,405	00
201	26	8341	Bruce Benner	1,611	00
021	96	1532	Frank Conway	1,560	00
988	00	3214	Donna Daly	1,605	00
496	38	9527	Jane Evans	2,080	00
725	80	6741	Carl Frazer	2,080	00

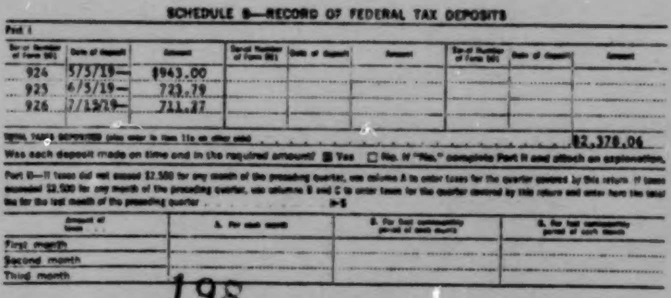
11,341.00

21. TOTAL WAGES TAXABLE UNDER F.I.C.A. PAID DURING QUARTER $11,341.00

22. TOTAL TIPS REPORTED UNDER F.I.C.A. DURING QUARTER $None

EXHIBIT 2--Form 941
Employer's Quarterly
Federal Tax Return

Schedule B of Form 941 showing monthly deposits made for April, May, and June payrolls.



SCHEDULE B—RECORD OF FEDERAL TAX DEPOSITS

Part I

924	5/5/19—	$943.00						
925	6/5/19—	723.79						
926	7/15/19—	711.27						

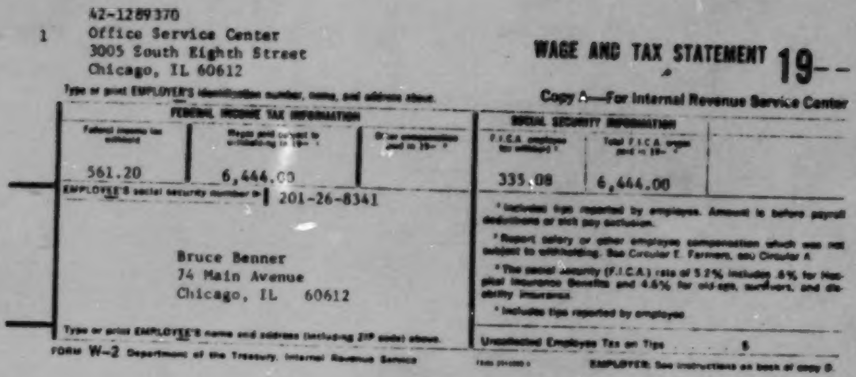
$2,378.06

Was each deposit made on time and in the required amount? ☒ Yes ☐ No.

First month			
Second month			
Third month			

REPORTING FORMS FOR FEDERAL INCOME TAX WITHHELD

Exhibit 3--
W-2 Wage and Tax
Statement



42-1289370
1 Office Service Center
3005 South Eighth Street
Chicago, IL 60612

Type or print EMPLOYER'S identification number, name, and address above.

WAGE AND TAX STATEMENT 19--

Copy A—For Internal Revenue Service Center

FEDERAL INCOME TAX INFORMATION			SOCIAL SECURITY INFORMATION		
Federal income tax withheld	Wages paid subject to withholding in 19-- [1]	Other compensation paid in 19-- [2]	F.I.C.A. employee tax withheld [3]	Total F.I.C.A. wages paid in 19-- [4]	
561.20	6,444.00		335.08	6,444.00	

EMPLOYEE'S social security number ▶ 201-26-8341

Bruce Benner
74 Main Avenue
Chicago, IL 60612

Type or print EMPLOYEE'S name and address (including ZIP code) above.

[1] Includes tips reported by employee. Amount is before payroll deductions or sick pay exclusion.

[2] Report salary or other employee compensation which was not subject to withholding. See Circular E. Farmers, see Circular A.

[3] The social security (F.I.C.A.) rate of 5.2% includes .6% for hospital insurance benefits and 4.6% for old-age, survivors, and disability insurance.

[4] Includes tips reported by employee.

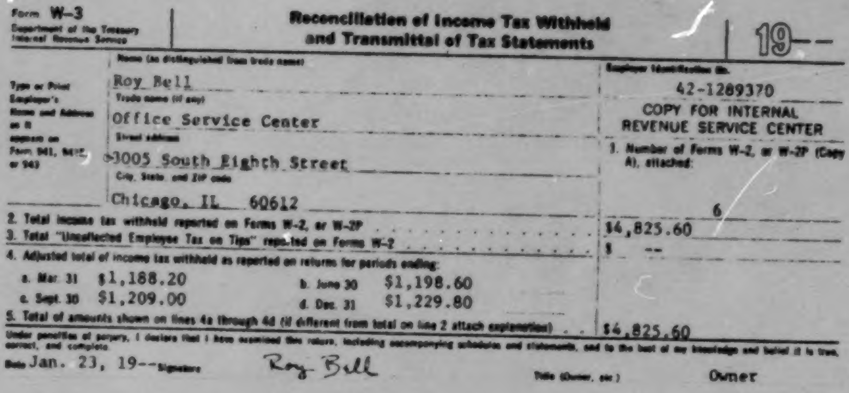
Uncollected Employee Tax on Tips . . . . . $

FORM W-2 Department of the Treasury, Internal Revenue Service

EMPLOYER: See instructions on back of copy D.

Form W-2 showing data obtained from employee earnings record.

Exhibit 4--
Form W-3
Reconciliation of
Income Tax
Withheld and
Transmittal of
Tax Statements



Form W-3
Department of the Treasury
Internal Revenue Service

Reconciliation of Income Tax Withheld and Transmittal of Tax Statements

19--

Type or Print Employer's Name and Address as it appears on Form 941, 941E, or 943

Name (as distinguished from trade name): Roy Bell
Trade name (if any): Office Service Center
Street address: 3005 South Eighth Street
City, State, and ZIP code: Chicago, IL 60612

Employer Identification No.: 42-1289370

COPY FOR INTERNAL REVENUE SERVICE CENTER

1. Number of Forms W-2, or W-2P (Copy A), attached: 6
2. Total income tax withheld reported on Forms W-2, or W-2P $4,825.60
3. Total "Uncollected Employee Tax on Tips" reported on Forms W-2 . . . . . $ --
4. Adjusted total of income tax withheld as reported on returns for periods ending:

a. Mar. 31	$1,188.20	b. June 30	$1,198.60
c. Sept. 30	$1,209.00	d. Dec. 31	$1,229.80

5. Total of amounts shown on lines 4a through 4d (if different from total on line 2 attach explanation) . . $4,825.60

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief it is true, correct, and complete.

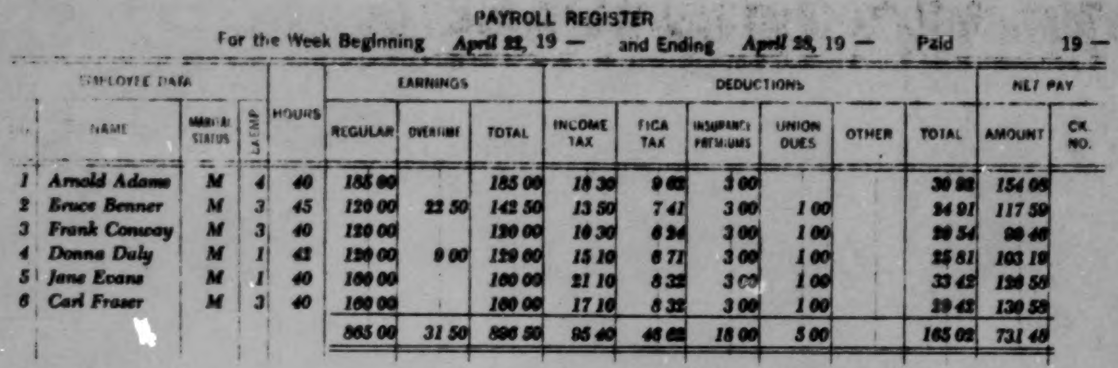
Date Jan. 23, 19-- Signature Roy Bell

Title (Owner, etc.) Owner

Form W-3 showing amount of income tax withheld during year, must be filed on or before January 31 of the following year.

FORMS COMMONLY USED TO MAINTAIN TAX DATA

Exhibit 1--Payroll Register for Week of April 22-28
Showing Individual and Total Earnings, Deductions, and Net Pay

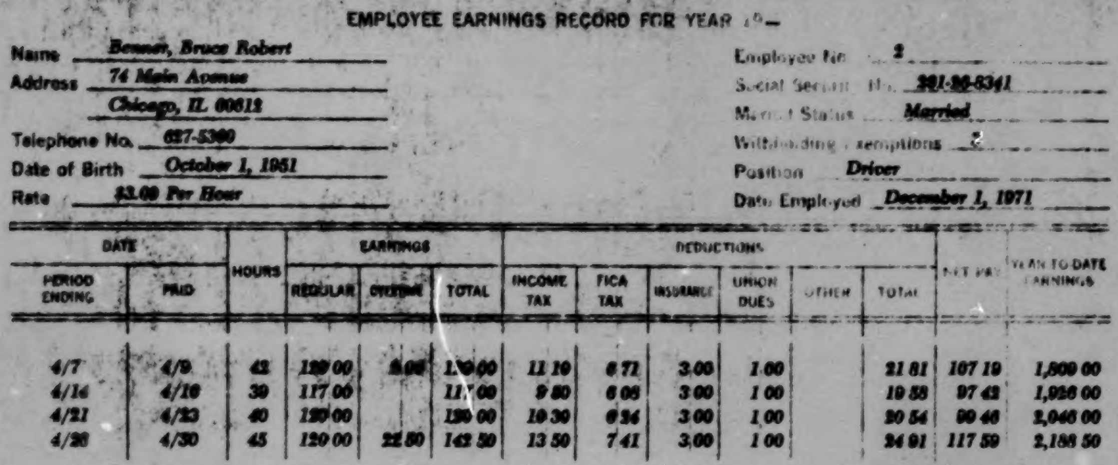


PAYROLL REGISTER

For the Week Beginning *April 22*, 19 — and Ending *April 28*, 19 — Paid 19 —

EMPLOYEE DATA				HOURS	EARNINGS			DEDUCTIONS						NET PAY	
	NAME	MARITAL STATUS	EXEMP.		REGULAR	OVERTIME	TOTAL	INCOME TAX	FICA TAX	INSURANCE PREMIUMS	UNION DUES	OTHER	TOTAL	AMOUNT	CK. NO.
1	Arnold Adams	M	4	40	185 00		185 00	18 30	9 62	3 00			30 92	154 08	
2	Bruce Benner	M	3	45	120 00	22 50	142 50	13 50	7 41	3 00	1 00		24 91	117 59	
3	Frank Conway	M	3	40	120 00		120 00	10 30	6 24	3 00	1 00		20 54	99 46	
4	Donna Daly	M	1	42	120 00	9 00	129 00	15 10	6 71	3 00	1 00		25 81	103 19	
5	Jane Evans	M	1	40	160 00		160 00	21 10	8 32	3 00	1 00		33 42	126 58	
6	Carl Fraser	M	3	40	160 00		160 00	17 10	8 32	3 00	1 00		29 42	130 58	
					865 00	31 50	896 50	85 40	46 62	18 00	5 00		165 02	731 48	

Exhibit 2-Employee Earnings Record for Year to Date
Showing Individual Earnings, Deductions, and Earnings to Date



EMPLOYEE EARNINGS RECORD FOR YEAR 19—

Name *Benner, Bruce Robert*
Address *74 Main Avenue*
Chicago, IL 60612
Telephone No. *627-5300*
Date of Birth *October 1, 1951*
Rate *$3.00 Per Hour*

Employee No. *2*
Social Security No. *391-30-8341*
Marital Status *Married*
Withholding Exemptions *3*
Position *Driver*
Date Employed *December 1, 1971*

DATE		HOURS	EARNINGS			DEDUCTIONS						NET PAY	YEAR TO DATE EARNINGS
PERIOD ENDING	PAID		REGULAR	OVERTIME	TOTAL	INCOME TAX	FICA TAX	INSURANCE	UNION DUES	OTHER	TOTAL		
4/7	4/9	42	120 00	9 00	129 00	11 10	6 71	3.00	1.00		21 81	107 19	1,809 00
4/14	4/16	39	117 00		117 00	9 80	6 08	3 00	1 00		19 88	97 12	1,926 00
4/21	4/23	40	120 00		120 00	10 30	6 24	3 00	1.00		20 54	99 46	2,046 00
4/28	4/30	45	120 00	22 50	142 50	13 50	7 41	3.00	1 00		24 91	117 59	2,188 50

BUSINESS AND PAYROLL TAXES
UNIT II - SESSION TWO

ASSIGNMENT SHEET

1. Name three taxes collected by the business as an agent of the government.

   a.

   b.

   c.

2. Name and describe briefly the purpose of each of the following forms used for reporting federal income taxes withheld.

   a. Form W-4

   b. Form W-3

3. Name three of four types of data accumulated by business in compliance with government regulation regarding taxes withheld from employees.

   a.

   b.

   c.

4. Describe the tax liabilities imposed on business that directly relate to payroll.

   a. FICA

   b. FUTA

5. Explain the regulations that determine who must pay federal and state unemployment taxes.

BUSINESS AND PAYROLL TAXES
UNIT II - SESSION TWO

ANSWERS TO ASSIGNMENT SHEET

1. a. Income taxes withheld from employees' earnings

   b. Social Security tax (FICA) liability of employees

   c. Sales tax

2. a. Form W-4--Employee Withholding Exemption Certificate
   Lists personal data about employee including social security number, and number of personal exemptions

   b. Form W-3--Reconciliation of Income Tax Withheld and Transmittal of Tax Statements
   Form prepared and filed with the copies of W-2's to check the accuracy of the employer's tax reporting statements

3. a. Number of persons employed during the year

   b. Amount of wages paid to each person subject to withholding

   c. Periods of employment of each person

   d. Amounts and dates of wages and salary payments and taxes withheld

4. a. FICA--the employer is expected to match the tax liability of employees

   b. FUTA--unless the company falls under a favorable merit system for continuous employment, the company can expect to pay a total of 3.2 percent on the first $4,200 in wages of each employee

5. a. Employs one or more persons in each of 20 days in a year, each day being a different week

   b. Business with a payroll of at least $1,500 in a calendar year

BUSINESS AND PAYROLL TAXES
UNIT II - SESSION TWO

TEST

1. Name the two legal capacities of a business associated with the collection and payment of taxes.

   a.

   b.

2. Name the four most important taxes imposed on business by government.

   a.

   b.

   c.

   d.

3. Match the three commonly used forms for compiling data on taxes withheld to the correct response.

   ___ a. A form used to compile all payroll data for a particular pay period

   ___ b. A form used to compile all payroll data for a particular employee

   ___ c. A form prepared for the employee reporting all payroll data for the employee for a particular pay period

   1. Payroll register

   2. Employee Earnings Record

   3. Employee Pay Statement

4. Indicate which of the following statements is true regarding businesses required to pay unemployment taxes by placing an "X" to the left of the correct response.

   ___ a. An establishment hiring four or more employees

   ___ b. An establishment with a yearly payroll in excess of $1500

5. List the three basic forms of business organization generally recognized for determining income tax liabilities for business and individuals.

   a.

   b.

   c.

6. List two of three regulations restricting the adoption of the "small business corporation" as a form of business organization.

   a.

   b.

7. Match the correct response on the right to the term on the left.

   ___ a. Proprietorship

   ___ b. Partnership

   ___ c. Small Business Corporation

   ___ d. Corporation

   1. Pays income taxes as a separate entity

   2. Required to file an income tax return but not required to pay income taxes

   3. Owner required to estimate and pay FICA taxes on business income

8. Describe three areas where decision making is closely related to the problems and costs associated with taxation.

   a.

   b.

   c.

BUSINESS AND PAYROLL TAXES
UNIT II - SESSION TWO

ANSWERS TO TEST

1. a. Agent
   b. Debtor
2. a. Income tax
   b. Payroll taxes
   c. Excise taxes
   d. State and local taxes
3. a. 1
   b. 2
   c. 3
4. X b.
5. a. Partnership
   b. Corporation
   c. Small Business Corporation
6. a. No more than ten stockholders, none of whom can be a corporation and all must give their consent
   b. No more than 20 percent of the corporate income can be derived from investments
   c. More than 20 percent of the corporate income must be derived from business operations within the United States
7. a. 3
   b. 2 & 3
   c. 2
   d. 1
8. a. Initial decisions regarding operations
   b. Location decisions
   c. Financing decisions
   d. Inventory valuation decisions

EMPLOYEE COMPENSATION, JOB EVALUATION PERFORMANCE APPRAISAL, AND TIME MANAGEMENT

UNIT II - SECOND SESSION

UNIT OBJECTIVE

After completion of this unit, the participant should be able to identify four objectives of employee compensation and three factors to consider in evaluating jobs. The participant should be able to name and discuss four other factors affecting compensation and explain the significance of "fringe" benefits. The participant should be able to list five reasons why employee evaluation should be undertaken and explain why performance standards are essential. The participant should be able to describe the value of the resource "time" and name five techniques for utilizing time more effectively. This knowledge will be evidenced through demonstration and by scoring eighty-five percent on the unit test.

SPECIFIC OBJECTIVES

After completion of this unit, the participant should be able to:

1. Match terms associated with Employee Compensation, Job Evaluation, Performance Appraisal, and Time Management to the correct definition.
2. Identify four objectives of employee compensation and explain why each is important.
3. Identify three factors a job evaluation should consider and give an example of each factor.
4. Describe why jobs should be evaluated.
5. Name and discuss four other factors that affect compensation.
6. Describe why the "going rate" is particularly important to consider in determining wages.
7. Evaluate the significance of "fringe" benefits and the importance of communicating their cost and nature to employees.
8. List five reasons why the performance of employees should be evaluated and explain the significance of each.
9. Recognize a need for performance standards and explain how they should be used.
10. Identify and discuss two broad categories of performance standards.
11. Describe the Graphic Rating Scale and explain how it can be used.

12. Recognize the value in the resource "time" and name five techniques for utilizing it more effectively.

13. Describe why a small business manager should delegate as the business grows.

14. Identify four elements of planning that are essential to effective delegation.

EMPLOYEE COMPENSATION, JOB EVALUATION, PERFORMANCE APPRAISAL, AND TIME MANAGEMENT
UNIT II - SECOND SESSION

SUGGESTED ACTIVITIES

I. Instructor:

  A. Provide participants with objective sheet.

  B. Provide participants with information and assignment sheets.

  C. Provide cassette tape.

  D. Give test.

II. Participant:

  A. Read objectives.

  B. Study information sheet and listen to cassette tape.

  C. Complete assignment sheet.

  D. Insure you can achieve each specific learning objective.

  E. Take test.

INSTRUCTIONAL MATERIALS

I. Included in this unit:

  A. Objectives

  B. Information sheets

  C. Transparency master

    1. TM 1--Performance Evaluation Instrument

  D. Assignment sheet

  E. Test

II. References:

A. Baumback, Clifford M., Kenneth Lawyer and Pearce C. Kelly. How to Organize and Operate a Small Business. Englewood Cliffs, New Jersey: Prentice-Hall Inc., 1973.

B. Broom, H. N. and Justin G. Longenecker. Small Business Management. Cincinnati, Ohio: South-Western Publishing Company, 1975.

C. Klatt, Lawrence A. Small Business Management: Essentials of Entrepreneurship. Belmont, California: Wadsworth Publishing Company, Inc., 1973.

D. Stegall, Donald P., Lawrence Steinmetz and John B. Kline. Managing the Small Business. Homewood, Illinois: Richard D. Irwin, Inc., 1976.

EMPLOYEE COMPENSATION, JOB EVALUATION, PERFORMANCE APPRAISAL, AND TIME MANAGEMENT
UNIT II - SECOND SESSION

INFORMATION SHEET

I. Terms and definitions

   A. Job evaluation--Systematically analyzing and evaluating each job in an organization in light of its duties, responsibilities and requirements

   B. Going rate--That wage rate being paid for comparable work by other firms in an industry or local geographic area

   C. Performance appraisal--Systematic evaluation of an employee with respect to his performance on the job

   D. Management by exception--When the manager specifies policies and procedures for employees to use in handling usual, day-to-day, recurring activities and tasks. The manager, then, handles the exceptional or non-routine situations and tasks

II. Objectives of employee compensation

   A. Facilitate attracting, recruiting, and hiring

      1. The labor market is competitive

      2. Skilled, talented employees are in demand

   B. Retain competent, skilled, experienced employees

      1. The most valuable employees are in the most demand

      2. Good human relations are important to motivation, but must be supported by adequate compensation

      3. Motivation and pay go hand in hand

   C. Provide equal pay for equal work

      1. Entails systematically studying the job's duties, responsibilities, and requirements (job evaluation)

      2. Relate job requirements to the job's compensation

      3. People are sensitive and tend to compare what others receive for like work

      4. Avoid inequity and inconsistency

D. Compensation should reflect employee's contribution or performance on that job

   1. Compensation represents a tangible measure of an employee's relative worth

   2. People expect their pay to reflect skills and energy contributed

III. Job evaluation

A. Definition--systematically analyzing and evaluating each job in an organization in light of its duties, responsibilities, and requirements

B. A job evaluation should consider several factors:

   1. Duties or actual tasks performed

      a. Supervisory or non-supervisory responsibilities

      b. Production, sales, or clerical duties

      c. What is the job's contribution, its importance to your business

   2. Skills required

      a. Physical--dexterity, coordination, effort

      b. Mental--knowledge or education necessary

      c. Experience

   3. Working conditions

      a. Desirable, clean, healthy

      b. Special hazards, heat, noise, dust, fumes

C. Why evaluate jobs

   1. To determine the relative worth of jobs and establish a hierarchy of grades or classification of jobs in an organization

   2. Jobs are evaluated in light of other jobs and their contribution to the business

   3. The manager is now in a position to establish:

      a. An average wage rate for each job or grade, and

      b. A range of pay for each job or grade

      c. Specific wages for a given employee, based upon merit, seniority, and other criteria

4. Thus, we are seeking to align compensation with the contribution of a job

D. The small business manager can begin the job evaluation process by utilizing job descriptions and job specifications

1. The job description and specification serve the entrepreneur here, as well as in recruiting, placing and training

2. The underlying rationale is "equal pay for equal work"

IV. Other factors affecting compensation

A. Ability to pay

1. Examine your financial position and profitability

a. Competitive position and strength

b. Labor cost should remain approximately proportionate to revenues

c. Where possible, an increase in wages should be offset by an equal or greater increase in productivity

2. Examine economic conditions in your industry and local area

B. Going rate

1. Definition--that wage rate being paid for comparable work by other firms in an industry or local geographic area

2. To attract or retain employees, the total compensation you provide must be equivalent to or compare favorably with the going rate

3. If you pay less you will:

a. Attract less competent employees

b. Lose valuable, talented employees

4. To determine the going rate,

a. Trade association data

b. State employment agency

c. Bureau of Labor Statistics

C. Cost of living

1. Average wage rates in an area tend to be proportional to that area's cost of living

2. Inquire at local Chambers of Commerce or councils for economic development

D. Payroll taxes and other expenses

1. If you pay more than $50 in quarterly wages, Social Security taxes must be paid
2. You must withhold Federal Income Taxes for all employees to whom you pay salaries or wages
3. Workmen's Compensation Insurance--for full-time employees
4. State Unemployment Insurance--if you pay wages
5. Federal Unemployment Taxes--if you have four or more workers employed 20 or more weeks per year
6. Federal Wage and Hour Law--if you sell across a state line, do business on a Federal contract, or have revenues greater than $500,000
   a. Pay minimum wage
   b. Pay time and one-half for over 40 hours per week

V. Employee benefits

A. Fringe benefits are not really "fringe" today, they constitute 30% of the average employer's yearly payroll

1. They are significant, costly and increasing
2. "Fringe" benefits commonly include:
   a. Paid vacations, holidays, birthdays off
   b. Life, health and disability insurance
   c. Pension plans
   d. Paid sick leave and jury duty
   e. Bonuses and profit sharing
3. The entrepreneur must be sensitive to the total compensation he pays (wages and benefits) in comparison to the going rate

B. To attract and retain competent employees, fringe benefits should be comparable, if not compensated for through wages or salary

1. Employees have come to expect the typical benefits and almost perceive them as a right

2. Benefits have a big impact on employee's life and peace of mind

3. The entrepreneur should communicate the cost and nature of the benefits provided so that employees will

    a. Not take them for granted

    b. Appreciate the benefits provided

C. Profit sharing

1. When a small business feels it cannot afford to offer the same compensation as big business, it may offer a profit sharing plan

    a. Recently, the use of profit sharing has increased in small businesses

    b. Employees are able to share in the success of the business and should be more motivated to be effective

2. Requires an agreed upon basis followed consistently and clearly understood by participating employees

    a. Mutual trust and confidence are important

    b. Employees should be aware that profits can fluctuate widely

VI. Employee evaluation

A. Performance appraisal--systematic evaluation of an employee with respect to his performance on the job

B. Why appraise performance--to help the employee become more effective

1. Highlights training needs

    a. Opportunities for growth and development

    b. Minimize weaknesses

2. Personnel actions

    a. Merit pay increases can be based on performance

        1) Clearly relates results/contribution to compensation

        2) Insure that the evaluation criteria are fair and that the process is objective and consistently applied

        3) May wish to differentiate merit increases from cost-of-living, seniority and across-the-board increases

    b. Promotion

3. Improve the relationship between the manager and the employee (Develop rapport)
    a. Take time to review the evaluation with the employee
    b. "Level" with the employee and he will respect you and probably be more productive if he knows the facts
    c. A counseling session to be conducted tactfully and constructively
    d. Also an opportunity to recognize and reward the employee and say "thanks"
4. Provide feedback to the employee
    a. Most people want to know "where they stand," and want to do well
    b. Uncertainty can be frustrating
5. Better coordination of employee efforts

C. The need for performance standards

1. In order to evaluate employees, you must have something against which to compare them
    a. What performance is expected
    b. Performance standards should be achievable, communicated and understood
    c. The job description is a good place to have them in writing
2. Two broad categories of standards
    a. Quantifiable or objective
        1) Units, dollars, time, sales, costs, pounds
        2) If possible, use this type of standard
    b. Qualitative or intangible
        1) Initiative, morale, cooperation, attitude
        2) Can't be avoided, but, they are harder to evaluate

D. How often to evaluate

1. At least once a year
2. Some small businesses evaluate every 6 months or every 3 months

3. New employees should be evaluated more frequently--perhaps after the first month and 6 months

E. Graphic rating scale (Transparency #1)

1. A fairly simple, straightforward appraisal instrument and easy to use

2. You may wish to add or delete various items to adapt it to

a. The position or job

b. Your personal views on evaluation

VII. Time management and job demands

A. Time is a valuable resource

1. Success is not measured by unusually long hours, rather it is measured in the effective utilization of those hours in financial results

2. Many small business managers waste more time than they realize

a. Often we avoid or postpone the things we have failed at, dislike, or find difficult

b. Time is often spent on things we like to do, have been successful at or think are important

c. Is your time being absorbed on the most essential, necessary aspects of the business?

3. Time is finite, only so much of it can be devoted to a business

B. How to manage time more effectively--PLAN

1. Rank jobs, duties, things to accomplish

a. Duties and tasks vary as to importance and urgency

b. Which are really essential

2. Determine if there is a quicker, more efficient way

3. Can an activity be combined with others

4. Can an activity be eliminated

5. What other alternatives are available

6. Jot down the list of "things to do" on a desk calendar

7. Decide which activities can be delegated

C. Why a small business manager should eventually delegate

  1. After reaching a certain size, the entrepreneur will discover he does not have sufficient time to do by himself all the jobs he once did

  2. He will find that effective organization and efficient use of employees requires delegation

  3. The business, as a whole, will be more successful, profitable, and financially stable if the manager concentrates on such things as:

    a. Planning, organizing, controlling, directing

    b. The overall strategic aspects of managing and guiding a business

    c. The critical, far-reaching decisions

  4. It is an excellent training technique and enhances morale

D. Effective delegation requires planning

  1. Analyze jobs and responsibilities and determine what you want done, when and by whom

    a. Can an activity be eliminated or delegated

    b. Even though you can "do it better myself," can it be done "well enough" by another, therefore allowing more efficient use of your time and effort

  2. The significance of a job description should be apparent

  3. The manager must provide clear, concise directions and instructions

    a. Use specific objectives or results as performance standards

    b. Insure people know what you expect

  4. Develop confidence and trust in your employees. That is not difficult if they are:

    a. Properly selected

    b. Properly trained

    c. Motivated

E. Management by exception--a fancy label for effective delegation

1. When the manager specifies, policies and procedures for employees to use in handling usual, day-to-day, recurring activities and tasks

2. The exceptional or non-routine situations and tasks are handled by the manager

ALETCO ENTERPRISES
PERFORMANCE EVALUATION

NAME ______________________________ DATE ______________

POSITION ___________________________ YEARS OF SERVICE ________

	OUTSTANDING	GOOD	SATISFACTORY	FAIR	UNSATISFACTORY
Quantity of work Volume of acceptable work under normal conditions Comments:	☐	☐	☐	☐	☐
Quality of work Thoroughness, neatness, accuracy Comments:	☐	☐	☐	☐	☐
Knowledge of job Clear understanding of the facts or pertinent factors Comments:	☐	☐	☐	☐	☐
Personal qualities Personality, appearance, sociability, leadership, integrity Comments:	☐	☐	☐	☐	☐
Cooperation Ability and willingness to work with others toward common goals Comments:	☐	☐	☐	☐	☐
Dependability Conscientious, thorough, accurate, reliable with respect to attendance, lunch periods, breaks, etc. Comments:	☐	☐	☐	☐	☐
Initiative Earnestness in seeking increased responsibilities. Self starting, unafraid to proceed alone? Comments:	☐	☐	☐	☐	☐

EMPLOYEE COMPENSATION, JOB EVALUATION PERFORMANCE APPRAISAL, AND TIME MANAGEMENT

UNIT II - SECOND SESSION

ASSIGNMENT SHEET

1. List three objectives of employee compensation.

   a. ______________________________

   b. ______________________________

   c. ______________________________

2. Name the three broad factors to consider in evaluating a job.

   a. ______________________________

   b. ______________________________

   c. ______________________________

3. Briefly explain why jobs should be evaluated.

4. Name three factors, in addition to job evaluation, that should be considered in determining compensation.

   a. ______________________________

   b. ______________________________

   c. ______________________________

5. Do you feel it is important to communicate the cost and nature of "fringe benefits" provided by a business? Discuss.

6. Give three reasons why it is desirable to evaluate employee performance.

   a. ______________________________

   b. ______________________________

   c. ______________________________

7. Some management writers contend that pay should not be based upon an appraisal of an employee's performance, since the main purpose of appraisal is to help the employee become more effective--not justify a pay raise. How do you feel about this?

8. Name and give two examples of each of the two broad categories of performance standards.

	type of standard	examples	
a.	____________	____________	____________
b.	____________	____________	____________

9. A graphic rating scale is suggested in this packet as an instrument to use in performance appraisal. What do you see as its primary advantages?

10. In what ways could you make better use of your time? Try to be honest with yourself and creative--list at least five ways.

a. ______________________________

b. ______________________________

c. ______________________________

d. ______________________________

e. ______________________________

11. The owner of a small business comments, "Why should I delegate duties and tasks to my employees if I could do it better myself?" How would you respond?

12. Discussion case--Equal Pay

EQUAL PAY?

"Well, your company is certainly fair enough, Tom--$4.50 per hour is right in the ballpark for shipping clerks."

Tom gulped. He had recommended Jeff himself. Tom had graduated two years ago. Jeff had dropped out for a while, fiddled around, and then gone back to finish. "Ah, $4.50?" Tom said weakly.

"Yeah, not bad. The fringes are pretty good, too. What are they paying you, Tom?"

"Ah, $4.25."

"What? How come? You had better grades than I did."

"Well, two years ago the starting pay was $3.25. I've done quite well, really--gotten two raises. I guess the demand is picking up again."

"Believe me, it is. I had two job offers. One was $4.25, and one was $4.75, but it was a lousy compnay. I think I'll go with yours."

"You know, Jeff, it just doesn't seem fair. I mean, here I've been working for two years, and I'm not getting as much as you'll get to start."

Jeff smiled. "Remember your economics, Tom. Supply and demand. Supply is up a bit, but demand is up more--and the market is talking. If a company wants a new shipping clerk, they have to pay the price."

QUESTIONS:

1. If you were the manager of this small business, would you be concerned about the situation?

2. What action should be taken?

3. If you were Tom, what would you do. Be objective!

EMPLOYEE COMPENSATION, JOB EVALUATION, PERFORMANCE APPRAISAL, AND TIME MANAGEMENT
UNIT II - SECOND SESSION

TEST

Match the following terms with the definitions listed below:

a. Management by exception
b. Job evaluation
c. Going rate
d. Performance appraisal

_____ 1. That wage rate being paid for comparable work by other firms in an industry or local geographic area.

_____ 2. Systematically analyzing and evaluating each job in an organization in light of its duties, responsibilities and requirements.

_____ 3. When the manager specifies policies and procedures for employees to use in handling usual, day-to-day, recurring activities and tasks. The manager, then, handles the exceptional or non-routine situations and tasks.

_____ 4. Systematic evaluation of an employee with respect to his performance on the job.

5. Which of the following are true concerning employee compensation?

   a. Most employees are not concerned about what others make in similar jobs

   b. Skilled, talented employees are in demand in the competitive labor market

   c. It is not necessary to "provide equal pay for equal work" if you are an effective manager

6. The objectives of employee compensation include

   a. Attract and retain skilled, experieced employees

   b. Compensation should reflect the employee's contribution on the job

   c. Providing equal pay for equal work

   d. All the above

7. What should be considered in conducting a job evaluation?

   a. Years of service with your business

   b. Potential for advancement

   c. Job responsibilities, duties and tasks

   d. Initiative

8. One of the factors affecting compensation is "ability to pay." Where can you find information to assess your position on this factor?

   a. Trade associations

   b. Determine the going rate

   c. Determine the cost of living

   d. Your financial statements

9. To attract and retain valuable, competent employees, the entrepreneur must provide total compensation (wages and benefits) that is roughly equivalent to the going rate.

   a. True

   b. False

10. Your business must conform to the Federal Wage and Hour if:

    a. Revenues exceed $500,000

    b. If you pay more than $50 a quarter in wages

    c. You have 12 or more employees

    d. You have anyone employed by you

11. "Fringe benefits" constitute approximately what percentage of the average employer's yearly payroll?

    a. 5%

    b. 15%

    c. 25%

    d. 30%

12. Which of the following are true concerning profit sharing?

    a. The basis for profit sharing must be clearly understood and consistently followed

    b. When profit sharing plans are available, the employer need not pay the matching Social Security tax

    c. It can be motivating since employees share in the success of the business and their efforts

    d. a and c are both true

13. What are some of the reasons why small business managers appraise performance?

    a. It is required by the federal government

    b. Training needs may be identified

    c. A better understanding can be developed between manager and employee

    d. b and c are both correct

14. In evaluating employees, performance standards

    a. Are unnecessary since they can never be objectively established

    b. Should be set as "targets" to strive for, but they should not be achievable

    c. Are necessary and provide something against which to compare employees

    d. Should always be intangible and vague

15. What reasons are given in this packet for delegating?

    a. The manager will have more time for the critical, strategic aspects of running a business

    b. It is an excellent technique of job evaluation

    c. It provides closer contact with suppliers

    d. Employees are always receptive to additional responsibility

16. Where are job descriptions likely to be useful?

    a. Careful planning in order to delegate duties and responsibilities

    b. Conducting job evaluations

    c. Determining performance standards

    d. All the above

EMPLOYEE COMPENSATION, JOB EVALUATION, PERFORMANCE APPRAISAL, AND TIME MANAGEMENT
UNIT II - SECOND SESSION

ANSWERS TO TEST

1. c
2. b
3. a
4. d
5. b
6. d
7. c
8. d
9. a
10. a
11. d
12. d
13. d
14. c
15. a
16. d

CUSTOMER SERVICE, PERSONAL SELLING AND COMPETITION
UNIT II - THIRD SESSION

UNIT OBJECTIVE

After completion of this unit, the participant should be able to explain why a small business need be concerned about customer service and name seven suggestions for establishing sound customer relations. The participant should be able to describe the significance of personal selling to a small business and identify the seven elements in a suggested approach to effective retail selling. The participant should be able to explain why information about competitors is important, specify five factors to consider in evaluating competition, and list eight sources of information about the competition. This knowledge will be evidenced through demonstration and by scoring eighty-five percent on the unit test.

SPECIFIC OBJECTIVES

After completion of this unit, the participant should be able to:

1. Describe why sound, effective customer relations and service are essential to the success of a small business.
2. Specify the first step in establishing sound customer relations.
3. List seven specific suggestions for establishing sound customer relations.
4. Explain why personal selling is the "lifeblood" of the small business.
5. Describe why effective personal selling requires a knowledge of yourself, the customer, the product and the company.
6. Identify seven elements in a suggested approach to effective retail selling.
7. Explain why it is important to have accurate, current and factual information on the competition.
8. List and describe five factors to consider in evaluating competition.
9. Name eight sources of information about the competition.

CUSTOMER SERVICE, PERSONAL SELLING AND COMPETITION
UNIT II - THIRD SESSION

SUGGESTED ACTIVITIES

I. Instructor:

   A. Provide participants with objective sheet.

   B. Provide participants with information and assignment sheets.

   C. Provide cassette tape.

   D. Give test.

II. Participant:

   A. Read objectives.

   B. Study information sheet and listen to cassette tape.

   C. Complete assignment sheet.

   D. Insure you can achieve each specific learning objective.

   E. Take test.

INSTRUCTIONAL MATERIALS

I. Included in this unit:

   A. Objectives

   B. Information sheets

   C. Assignment sheet

   D. Test

II. References:

   A. Baumback, Clifford M., Kenneth Lawyer and Pearce C. Kelly. How to Organize and Operate a Small Business. Englewood Cliffs, New Jersey: Prentice-Hall Inc., 1973.

   B. Broom, H. N. and Justin G. Longenecker. Small Business Management. Cincinnati, Ohio: South-Western Publishing Company, 1975.

   C. Klatt, Lawrence A. Small Business Management: Essentials of Entrepreneurship. Belmont, California: Wadsworth Publishing Company, Inc., 1973.

   D. Stegall, Donald P., Lawrence Steinmetz and John B. Kline. Managing the Small Business. Homewood, Illinois: Richard D. Irwin, Inc., 1976.

CUSTOMER SERVICE, PERSONAL SELLING AND COMPETITION
UNIT II - THIRD SESSION

INFORMATION SHEET

I. Customer relations and service

  A. Why be concerned about customer relations and service?

    1. The most valuable asset any business has is the satisfied customer who buys and will continue to buy the product

      a. An important objective of a business should be to attract and retain this type of customer

      b. To a great extent, the success of a business depends upon the desire and determination of its management to serve his fellow man

    2. Customers are quick to decide if they are getting their "money's worth"

      a. The total product offering is what counts

      b. The small business is in an excellent position to provide services and accommodations

  B. The first step in establishing sound customer relations is to know the customer--his needs, wants, likes, dislikes, unique characteristics

    1. The more you know about the customer, the better able you will be to meet his needs by tailoring your product offering to him

    2. Customer needs, preferences and tastes are constantly changing and a business must adapt to this

    3. Pay close attention to customer comments and reactions

  C. Specific suggestions for establishing sound customer relations

    1. Whenever possible, greet customers personally and by name

    2. Display a genuine interest in customers--often, this means being a good listener

    3. Emphasize courtesy and consideration

      a. Avoid keeping a customer waiting for long periods of time

      b. Show courtesy and tact in handling complaints and credit problems

    c. Give special consideration to the tired shopper

4. Ask the customer how your service can be improved

5. Revise a systematic procedure for handling complaints

    a. Make rapid and reasonable adjustments

    b. Try to improve the situation or eliminate the cause of complaints

6. Often, a small business will emphasize one aspect of customer service to differentiate itself from its competition. It may establish special:

    a. Credit arrangements

    b. Delivery arrangements

    c. Telephone service

    d. Layaway service

    e. Parking

    f. Return and allowance policies

    g. Procedures for accommodating unusual requests

    h. Policy on prompt response to all requests

7. Insure all employees realize, that to the customer, they are the company or business

    a. The business manager must establish and enforce a policy on how employees are to treat customers

    b. Employees must understand policies on returns and allowances, complaints and other aspects of the business's customer service

    c. The image of the business is enhanced to the extent that delivery, sales, and credit personnel treat customers as the manager would

II. Effective personal selling

A. Personal selling is the "lifeblood" of the small business

1. "Nothing happens until a sale is made."

2. It has been said that the weakest selling job is done at retail level

3. Yet, it is especially important to the small business that seeks to provide special services and accommodations

4. No matter how busy the entrepreneur is, he should remain involved with the personal selling of his product

B. Effective personal selling requires a knowledge of yourself, the customer (see section I-B), the product and the company

C. Personal characteristics--know yourself

1. Selling personnel must be conscientious about their physical appearance, dress, cleanliness and personal hygiene

2. They must carefully assess their personality, attitudes and biases

   a. Should have a genuine desire to serve the customer

3. The image projected is important

D. The product or service

1. It is essential that the product or service be consumer-oriented

   a. Its design and characteristics should meet the needs and requirements of the consumer-user at a price he is willing to pay

   b. That consumer needs and requirements change constantly, is apparent in the rapid rate at which new products replace old ones

   c. It has been said that, "You can sell a poor product to a customer once."

   d. Be sensitive to product weaknesses and complaints

2. Sales personnel should believe in the product

3. Effective personal selling requires product knowledge

   a. Be able to demonstrate/explain how a product will meet the customer's needs

      1) Suggest new uses, applications, advantages, disadvantages

      2) Discuss construction, safety and other performance characteristics

   b. Customers expect sales personnel to answer their questions and quickly sense ignorance

- c. When a great variety of merchandise is carried, it may be advisable to divide the selling responsibilities among several employees
- d. For the technical or high dollar-value item, it may be desirable to learn the history, development and background of the product
- e. Selling must be more than order taking

E. The company or business

1. Sales personnel should know company policies, procedures and goals in such areas as:
    - a. Credit
    - b. Returns and allowances
    - c. Promotion and advertising
    - d. Delivery
2. They should have some knowledge of the industry and competition
3. They should be familiar with product prices and promotions

F. An approach to selling at the retail level

1. Assess and understand the customer's behavior in the selling situation
    - a. Unique characteristics, personality
    - b. Past buying habits
2. Get the customer's interest aroused
    - a. Put him in a good frame of mind and create a receptive atmosphere
    - b. Sales personnel must, first, sell themselves
    - c. Demonstrate an interest in the customer
3. Show and explain how the product will help the customer meet his needs or requirements
    - a. Requires a knowledge of both the customer and the product
    - b. Supply the necessary facts or information--but not too much information
    - c. Customers may be more interested in what others think of the product

4. Answer questions and objections
    a. When possible, agree with the customer
    b. Be tactful and patient and avoid contradicting or arguing with the customer
    c. Determine why the customer is not buying and eliminate the obstacle
    d. An opportunity to gain the customer's confidence
        1) Quote prices accurately and promptly
        2) Valid objectives should be admitted but point out compensating values
5. Closing the sale
    a. Involves seeking a commitment from the customer
        1) Knowing when and how is important
        2) Be prepared to do it any time
        3) Often requires persistence--several efforts
    b. How to close--several approaches
        1) Summarize the main points, benefits or reasons why to buy
        2) Offer an added inducement--free delivery, alterations, cash discount
        3) Indirect approach--to make the decision easier, ask the customer if its cash or charge, which style or color, etc.
        4) Direct approach--ask for the order or sale
        5) Subtle approach--assume the sale is made, just clear up the minor details
6. Suggest additional merchandise
7. Build repeat business

III. Your competition

A. The importance of knowing about the competition

1. Few small businesses enjoy a position of monopoly--one free from competition
    a) The market for my product or service is only so big

        b. Need to know as much as possible about those businesses who also seek a share of that finite market

    2. The small business's plans and marketing strategy should reflect the competitive circumstances in the marketplace

        a. The entrepreneur may need to adjust his plans or strategy in response to those of competitor's

        b. Answers should be found to such questions as:

            1) Can I capture a share of the market?

            2) What percentage of the market can I reasonably expect to capture?

            3) Is the market expanding?

            4) Why is my share of the market declining?

            5) How successful have other businesses similar to mine been in this market?

    3. The small business manager should insure that he is not basing his plans and strategy on opinion or hearsay

        a. He must continually devote some of his time and effort to getting and analyzing facts about his market and competitors

        b. Knowing the competitor's strengths and weaknesses will help the manager find his niche in the market

        c. What are the trends or patterns of development?

    4. Each business is unique as to personnel, policies, size, location, distribution channels, availability of capital and experience; therefore, what is effective for one may not work for another

B. Factors to consider in evaluating competition

    1. The number of competitors situated in your trade area, where they are situated, and who they are. Specifically:

        a. Their sales volume and approximate share of the market

        b. The specific market segment being sought--for example, the high income or low income, old or young consumers

        c. The products or services offered--variety, quality, delivery, credit and other accompanying customer services

        d. Financial strength, capacity, aggressiveness, growth outlook or potential

   - e. Length of time in business

2. The number of nonresident and/or indirect competitors such as
   - a. Regional or specialty stores in neighboring towns
   - b. Catalog/mail order firms
   - c. Stores carrying a limited line of products your business sells

3. Opportunities may exist where competitors are poorly managed and are doing an inadequate job of meeting consumer needs:
   - a. High prices
   - b. Prevalent out-of-town buying
   - c. Dirty/poorly kept stores
   - d. Low quality, inferior products
   - e. Poor customer service
   - f. Personnel turnover

4. The close proximity of competitors is not always a drawback
   - a. Consider such products as furniture, appliances, shoes, clothes, automobiles and other shopping items
   - b. The customer often will travel a great distance if he can shop in several stores and make comparisons
   - c. The increase in customer traffic in malls and shopping centers can offset any losses to competitors

5. Pricing policies of competitors
   - a. Sales, promotions, product lines, clearances, time of the year
   - b. Customer reaction to prices
   - c. Reaction of competitors to your prices
   - d. Remember, the same price for the same product yields a different profit for different businesses
   - e. Be aware of the competitor's prices but seek to compete on a non-price basis

C. Sources of information about competitors

1. Local telephone, trade and commercial directories
2. Competitor catalogs, advertising and other literature available
3. Trade association data
4. Customer remarks and suggestions
5. Supplier remarks and suggestions
6. Periodically check with local government offices on business permits issued if such records are public
7. If possible, secure a Dun and Bradstreet report on competitors
8. Local newspapers

CUSTOMER SERVICE, PERSONAL SELLING AND COMPETITION
UNIT II - THIRD SESSION

ASSIGNMENT SHEET

1. "The success of a business is measured, first, by how well that business serves its customers and meets their needs, and only secondarily by the profits it generates." How do you feel about this comment? Discuss.

2. List five specific suggestions for establishing sound customer relations.

   a. ______________________________

   b. ______________________________

   c. ______________________________

   d. ______________________________

   e. ______________________________

3. Often employers don't bother to tell employees how the customer should be treated. Do you think it is important to establish policies in this area and communicate to and train employees in the area of customer relations? Why?

4. Do you believe "the weakest selling job is done at the retail level." Comment.

5. Briefly list the kind of product knowledge you feel is important to selling your business's product.

6. What are the implications of the statement, "You can sell a poor product to a customer once."

7. List the seven steps suggested for personal selling at the retail leveL:

   a. ______________________________
   b. ______________________________
   c. ______________________________
   d. ______________________________
   e. ______________________________
   f. ______________________________
   g. ______________________________

8. Identify four ways to "close" a sale.

   a. ______________________________
   b. ______________________________
   c. ______________________________
   d. ______________________________

9. Choose one of the closing techniques in question #8 and discuss how it might be applied.

10. Name five questions that should be answered concerning your competition.

   a. ______________________________
   b. ______________________________
   c. ______________________________
   d. ______________________________
   e. ______________________________

11. Give two examples of non-resident or indirect competition.

a. ______________________________

b. ______________________________

12. Locating close to the competition is not always a drawback. Discuss.

13. List the five sources of information about your competitors.

a. ______________________________

b. ______________________________

c. ______________________________

d. ______________________________

e. ______________________________

CUSTOMER SERVICE, PERSONAL SELLING AND COMPETITION
UNIT II - THIRD SESSION

TEST

1. The most valuable asset any business has is

   a. its employees

   b. location

   c. technologically advanced equipment

   d. satisfied, loyal customers

2. The first step in establishing sound customer relations is

   a. satisfactory credit policy

   b. fair and reliable warranty

   c. know the customer

   d. knowledgeable employees

3. How do most customers generally view your employees and interpret their attitude and behavior?

   a. very casually and it doesn't affect sales

   b. in the eyes of the customer, the employee is the business

   c. if customers are favorably impressed, your image is enhanced

   d. both b. and c. are correct

4. Effective personal selling requires a knowledge of yourself, the customer, the business and the

   a. product

   b. warranty law

   c. management

   d. accounting

5. Product knowledge is important in effective selling because:

   a. customers expect salespersons to be able to answer their questions

   b. customers may be unaware of the various uses and applications of a product

   c. construction, quality and safety features may be a selling point

   d. all of the above are correct

6. Assessing and understanding the customer's behavior and personality is one of the

   a. first steps in personal selling

   b. last steps in personal selling

7. Which of the following is true concerning the suggested approach to retail personal selling?

   a. a salesperson can never supply too much information

   b. it is not the salesperson's responsibility to be familiar with policies on credit, returns and delivery

   c. customers may be most interested in what other customers think of the product

   d. a salesperson should contradict the customer as often as possible to demonstrate his product knowledge

8. Generally, only one effort should be made to close a sale.

   a. True

   b. False

9. Why is it important to have information about your competitors?

   a. few small businesses have a monopoly

   b. to determine your share and the competitor's share of a finite market

   c. to insure that your strategy considers your competitor's strategy

   d. all the above are correct

10. Which of the following most clearly indicates that competitors are probably not meeting the needs of consumers

   a. low prices

   b. average employee turnover

   c. adequate customer service

11. Concerning pricing policy and the competition, which of the following is most accurate for the small business?

    a. be aware of the competitor's prices, but seek to compete on a non-price basis

    b. totally ignore competitor's prices and compete on a non-price basis

    c. since you should compete on a non-price basis, ignore customer reactions to your prices

    d. compete head on with the competition in all areas and keep your prices slightly below his

CUSTOMER SERVICE, PERSONAL SELLING AND COMPETITION
UNIT II - THIRD SESSION

ANSWERS TO TEST

1. d
2. c
3. d
4. a
5. d
6. a
7. c
8. b
9. d
10. d
11. a

ADVERTISING AND DISPLAY
UNIT II - SESSION 3

UNIT OBJECTIVE

Upon completion of this unit, the participant should be able to explain the values and limitations of advertising; list the advantages and disadvantages of various select media; prepare and test the value of advertisements; and plan an advertising budget. He should further be able to list the types of store displays and describe the factors influencing their effectiveness.

SPECIFIC OBJECTIVES

After completion of this unit, the participant should be able to:

1. Distinguish between advertising and publicity.
2. List the dual purposes of advertising for the small business.
3. Distinguish between promotional and institutional advertising.
4. Name three purposes of promotional advertising.
5. Describe the purposes of institutional advertising.
6. List three of five limitations of advertising as a tool for sales promotion.
7. Name four of five advertising media available to the small business and list the advantages and disadvantages of each.
8. Discuss the three methods of determining the size of the advertising budget for a business and explain their respective limitations.
9. List the three factors involved in preparing an advertisement.
10. List the four guidelines for determining the effectiveness of layout.
11. Explain five of the eight desirable qualities of an advertisement.
12. Distinguish among four types of advertising assessment.
13. Name the two types of store display.
14. Discuss why window displays are a valuable promotional device.
15. Discuss the factors determining the effectiveness of window displays.

16. Explain why window displays should receive sufficient attention from management.
17. List the three types of interior displays.
18. Describe the three forms of merchandise displays.

ADVERTISING AND DISPLAY
UNIT II - SESSION 3

INSTRUCTIONAL MATERIALS

I. Included in this unit:

- A. Objectives
- B. Information sheets
- C. Transparency masters
    - 1. TM 1--Expenditures for Advertising as a Percent of Sales Classified by Industry
    - 2. TM 2--Sample Checklist to Determine the Effectiveness of Advertisements
- D. Assignment Sheets
    - 1. Assignment sheet 1--Factors to Consider in Planning an Effective Advertising Program
    - 2. Assignment sheet 2--Preparation of Effective Advertisements for Print Media
- E. Test

II. Audio-visuals--Cassette tape

III. References

A. Duncan-Phillips-Hollander. Modern Retailing Management. Homewood, Illinois: Richard D. Irwin, Inc.

B. Stegall-Steinmetz-Kline. Managing the Small Business. Homewood, Illinois: Richard D. Irwin, Inc.

C. Pickle-Abrahamson. Small Business Management. Santa Barbara, California: John Wiley & Sons, Inc.

D. Rachman. Retail Strategy and Structure. Englewood Cliffs, New Jersey: Prentice-Hall, Inc.

ADVERTISING AND DISPLAY
UNIT II - SESSION 3

INFORMATION SHEET

I. Advertising and publicity, although related, are not the same

  A. Advertising--Any type of sales presentation that is nonpersonal and is paid for by an identifiable sponsor

  B. Publicity--Information about a company reported by different media because the information has some news value

II. Purposes of advertising for the small business

  A. Promote the goods and services of the firm

  B. Build the image of the firm

III. The two basic types of advertising

  A. Promotional advertising

    1. Regular price advertising--appeal based on desirability of the goods

    2. Bargain advertising--features price appeal in relation to value

    3. Clearance--sale advertising--close out slow-moving items, broken assortments, and remnants at reduced prices

  B. Institutional advertising

    1. Prestige advertising

    2. Service advertising

IV. Purposes of promotional advertising

  A. Increased sales

  B. Creation of an awareness of or an interest in a company's products or services

  C. Attract new customers

  D. Promotion of a special offer or special sale

  E. Introduce new products or services

V. Purposes of institutional advertising

  A. Create goodwill toward the company

  B. Build confidence in the company

  C. Create or strengthen the image of the firm in the community

VI. Limitations of advertising

  A. Management inefficiencies cannot be overcome by advertising

  B. Advertising cannot sell merchandise that people do not want to buy

  C. Advertising cannot sell merchandise in profitable quantities without the support of the entire business effort

  D. The effectiveness of advertising will be curtailed if it contains false or misleading statements

  E. Effectiveness of advertising will be diminished if poorly timed or improperly prepared

  F. Advertising cannot succeed to the fullest extent unless used conscientiously and continuously

VII. Advertising media

  A. Newspaper--most important medium for the small business

    1. Advantages

      a. Circulation covers a selected geographical territory

      b. Provides broad coverage in the selected trade area

      c. Ads reach people in all economic classes

      d. Ads are flexible and timely in that they can be changed frequently and readily

      e. Advertising costs in newspapers are relatively low

      f. Newspapers serve as a guide for shoppers who are looking for information about products or services

    2. Disadvantages

      a. Coverage is not selective, thus much of the newspaper ad coverage will be wasted

      b. So many ads are presented in one newspaper that a simple ad may be lost among all the others

      c. Newspapers are read or scanned hurriedly and are not kept very long in the home

B. Radio

   1. Advantages

      a. Offers opportunity for mass appeal and exposure of advertising message

      b. Offers the opportunity to be selective since it can be directed to a particular market in a town or city

      c. Flexible and timely

   2. Disadvantages

      a. May fail to reach a person if he is not listening

      b. Radio permits only a spoken message to describe a product or service

C. Television

   1. Advantages

      a. Products or services can be advertised as well as demonstrated

      b. Advertising message can be presented simultaneously

      c. Local 'spot' commercials permit the advertiser to select the time, audience, and the program for his commercial

      d. Ad messages can vary since they can be presented over different stations

   2. Disadvantages

      a. Projected onto the screen for a short time and may be missed by the prospective customer

      b. Only a part of the total viewing audience will be exposed to the ad

      c. Viewing audiences do other things during commercials, especially when they are aired during station breaks

D. Handbills

   1. Advantages

      a. One of the most inexpensive methods of advertising

      b. Businessman is able to control the distribution of the handbill

2. Disadvantages
    a. Many customers consider handbills a nuisance and react negatively
    b. Individuals who distribute the handbills may not be reliable

E. Direct mail advertising
    1. Includes circulars, letters, folders, postcards, and leaflets sent separately at bulk rates or stuffed into monthly bills
    2. Requires an accurate and current mailing list if it is to be effective
    3. The tone of such advertising is more personal than others that might be used

F. Signs--Outside signs designating the store's name, portable displays, and billboards are all forms of advertising that can assist the businessman

G. Specialty items--Useful items distributed free to customers as tokens of recognition which will have the name of the advertiser printed on them

VIII. Methods of determining advertising budget

A. Percent of sales (TM #1)
    1. Most widely used method because of its relative simplicity
    2. Works quite well in some cases but can create difficulties
        a. Sometimes difficult to determine the percentage figure which should be applied to sales
        b. The budget can be no more valid than the accuracy of the estimates of sales and percentages used

B. Combating the competition method
    1. Determining the advertising budget on the spending of your competition
    2. The value of this method can be questioned because no two companies require equal amounts of advertising; there are too many variables to consider

C. The objective task method
    1. Considered the most realistic and perhaps the most accurate
    2. This method is objective oriented which means that the businessman can be assured that the goals of the advertising expenditure will be accomplished

3. Requires more planning on the part of management
    a. The objectives for the forthcoming advertising program must be determined and defined
        1) The small business manager must have a firmly fixed idea in mind as to what he or she wants his or her advertising campaign to do--increase sales, obtain a larger share of the market, etc.
        2) This is difficult for the businessman who is unorganized or lacks expertise in this area
    b. Determine how these objectives might be met
    c. Determine what it will cost to meet these objectives
4. The basic shortcoming of this method is a lack of experience necessary to determine precisely how much advertising and what type is necessary to achieve the objectives established by the program

IX. Three factors involved in preparing the actual advertisement

A. Developing and writing the copy
1. The term copy refers to the reading matter of an advertisement
2. Efficiency in advertising seems to depend on the use of simple direct language
3. It should interpret the want-satisfying qualities of the retailer's offerings in terms of the consumer's needs and desires

B. Choosing the illustration
1. Not an essential ingredient but it serves to attract attention, show the merchandise, and lend atmosphere to the advertisement
2. The illustration should be simple, clear, and appropriate focusing attention on the points desired
3. It should contribute to the value of the advertisement more than would an alternative use of the space

C. Making the layout
1. This usually consists of a sketch showing the location of the text, headline, and illustration in the ad
2. It enables the advertiser to visualize the complete advertisement

X. Guidelines for determining the effectiveness of layout (See TM #2)

  A. Has attention value, presenting a complete and balanced picture pleasing to the reader

  B. Provides the desired emphasis through focusing attention on the more important parts of the advertisement

  C. Reflects the character or image of the store

  D. Makes effective use of type faces and sizes, white space, slogans, etc. in conformity with the best advertising standards

XI. Desirable qualities of an advertisement

  A. Easily recognizable

  B. Simple layout

  C. Dominant illustrations

  D. Give the main benefits of the promotion

  E. Give complete information

  F. State price or range of prices

  G. Specify branded merchandise

  H. Include store name and address

XII. Methods of assessment of advertising

  A. Copy testing--checking the layout, organization, and emphasis of the advertisement to insure that it is consistent with the image of the business. Evaluations are based on the amount of sales, volunteered comments by readers and the impressions of the businessman

    1. Insures that the intended audience is being addressed

    2. Insures that the message is the one that is intended

    3. Insures that the message is in the briefest, clearest, and most concise arrangement possible

  B. Consumer jury testing

    1. Pre-evaluating advertisements using a representative sample of potential consumers or buyers of the product or service

    2. Often criticized because a consumer may not be stimulated or prompted to buy merely because the ad appeals to him

3. Many small business managers have still found this to be an effective tool

C. Split-run testing

1. Basic idea is to design two sets of copy, one of which is inserted one day and the other inserted another day

2. The purpose is to compare the effectiveness of both ads in an effort to ascertain which is most effective

3. This can be a very effective method of testing the impact of copy but, it should be tempered with a realization that other factors may be influencing buying decisions

D. Readership testing

1. Determine how many of the possible readers actually saw the ad and took action as a result of it

2. Easiest and surest way to determine this data is simply by asking a buyer if he or she happened to see the ad in question

3. It must be remembered that readership of an advertisement does not necessarily make it good or bad

E. Sales test--comparison of sales figures in relation to a particular advertising campaign to determine effectiveness

XIII. Two types of store display

A. Window display

B. Interior displays

XIV. Importance of window displays as promotional devices

A. Emphasis on specific merchandise

B. Ability to attract customers into business

C. Image created for the store

XV. Factors determining effectiveness of window displays

A. Proper planning--should receive as much attention as advertising copy and layout

B. Frequently changed--Customers are easily bored and demand change; the frequency of change necessary increases as the size of the community decreases because the market size is restricted

C. As with advertisements, the window display should usually convey only one message

XVI. Interior displays should receive the attention of management because one-half or more of the purchases made in many stores are the result of buying decisions made after the customer has entered the store

XVII. Types of interior displays

A. Merchandise displays

B. Dealer displays

C. Store signs and decorations

XVIII. Three forms of merchandise displays

A. Open displays

B. Closed displays

C. Architectural displays

EXPENDITURES FOR ADVERTISING AS A PERCENT OF SALES CLASSIFIED BY INDUSTRY

Industry	Advertising Expenditures as Percent of Sales	
Manufacturing		1.3
Food and kindred products, including beverages	2.3	
Furniture and fixtures	1.2	
Leather products	1.5	
Wholesale trade		0.4
Retail trade		1.5
Food stores	1.0	
General merchandise stores	2.6	
Apparel and accessory stores	2.9	
Auto dealers	0.8	
Services		1.4
Hotels	2.1	
Personal services	1.9	
Business services	1.2	
Motion pictures	3.6	
Amusement and recreation services	2.2	

Source: U.S. Bureau of Census. Statistical Abstract of the United States. 1974.

SAMPLE CHECKLIST TO DETERMINE THE EFFECTIVENESS OF ADVERTISEMENTS

1. Has the advertisement maximum attention value?

2. Is it "in character" for the store it represents?

3. Does it dramatize the offer? This point includes the appeal to the reader's emotions.

4. Does it satisfy the sense of value of the prospective purchaser? This point could be elaborated to ask: Does it give conviction that price is right, that quality is good, that the merchandise will be beneficial and useful?

5. Does it inspire confidence in the advertiser?

6. Have necessary details been included as to size, color, style, price, address, phone, store hours, time of sale, free parking?

7. Has it a selling "hook" or unusual inducement for direct action?

Source: Duncan-Phillips-Hollander. Modern Retailing Management. Homewood, Illinois: Richard D. Irwin, Inc., p. 445.

TM 2

ADVERTISING AND DISPLAY
UNIT II - SESSION 3

ASSIGNMENT SHEET #1--FACTORS TO CONSIDER IN PLANNING AN EFFECTIVE ADVERTISING PROGRAM

1. Name three purposes of promotional advertising.

   a.

   b.

   c.

2. Name four of five advertising media available to the small business and list the advantages and disadvantages of each

   a.

      Advantages--

      Disadvantages--

   b.

      Advantages--

      Disadvantages--

   c.

      Advantages--

      Disadvantages--

d.

Advantages--

Disadvantages--

3. Discuss the three methods of determining the size of the advertising budget for a business and explain their respective limitations.

   a. Percent-of-sales method

      Limitations--

   b. Combating the competition method

      Limitations--

   C. The objective task method

      Limitations--

ADVERTISING AND DISPLAY
UNIT II - SESSION 3

ANSWERS TO ASSIGNMENT SHEETS

Assignment sheet #1

1. a. Increased sales

   b. Creation of an awareness of or an interest in company's products and services

   c. Attract new customers

   d. Promotion of special offers or sales

   e. Introduce new products or services

2. See information sheets pp. 5 - 7 Roman numeral VII

3. See information sheets pp. 7 - 8 Roman numeral VIII

Assignment sheet #2

Answers will vary according to the directives of the student. Care should be taken, however, to insure that the qualities, guidelines and factors necessary for effective advertising have been incorporated.

ADVERTISING AND DISPLAY
UNIT II - SESSION 3

TEST

1. Indicate which of the following statements best defines advertising by placing an "X" to the left of the correct response.

   ___a. Information of news value

   ___b. Reported by different media

   ___c. Paid for by an identifiable sponsor

2. Name the dual purposes of advertising.

   a.

   b.

3. Distinguish between institutional and promotional advertising.

   a. Institutional advertising--

   b. Promotional advertising--

4. List three of five limitations of advertising.

   a.

   b.

   c.

5. Briefly explain the split-run method of testing advertising.

6. Name the two types of store display.

   a.

   b.

7. Indicate whether the following response is true or false by placing an "X" to the left of the correct response.

____True Management should devote little time to store display because advertising presells merchandise before customers enter the
____False store making display of little consequence in relation to sales.

8. Match the three forms of merchandise display to the correct response.

____a. Merchandise is readily available for customer inspection and selection

____b. Merchandise is displayed to depict its appearance in a realistic setting

____c. Often used by firms with low volume, high value merchandise such as jewelry, camera equipment

1. Open display

2. Closed display

3. Architectural display

ADVERTISING AND DISPLAY
UNIT II - SESSION 3

ANSWERS TO TEST

1. X c.

2. a. Promote the goods and services of the firm

   b. Build the image of the firm

3. a. Institutional advertising--promotion of the image of the firm in the eyes of the community to encourage patronage

   b. Promotional advertising--promotion of products or services

4. a. Management inefficiencies cannot be overcome by advertising

   b. Advertising cannot sell merchandise that people do not want to buy

   c. Advertising cannot sell merchandise in profitable quantities without the support of the entire business effort

   d. The effectiveness of advertising will be curtailed if it contains false or misleading statements

   e. Effectiveness of advertising will be diminished if poorly timed or improperly prepared

5. a. Basic idea is to design two sets of copy, one of which is inserted one day and the other inserted another day

   b. The purpose is to compare the effectiveness of both ads in an effort to ascertain which is most effective

   c. Impact of copy should be tempered with a realization that other factors may influence buying decisions

6. a. Window display

   b. Interior display

7. False

8. a. 1

   b. 3

   c. 2

MANAGEMENT: FUNCTIONS, CHARACTERISTICS AND EVALUATION
UNIT III - FIRST SESSION

UNIT OBJECTIVE

After completion of this unit, the participant should be able to list the functions of management and classify personal traits necessary to successfully handle these functions. He should further be able to describe ways of developing these traits for the success of his business. This knowledge will be evidenced through demonstration and by scoring eighty-five percent on the unit test.

SPECIFIC OBJECTIVES

After completion of this unit, the participant should be able to:

1. Briefly describe or define management and "successful entrepreneur".
2. Match the functions of management to correct definitions.
3. Distinguish between long- and short-term planning.
4. Describe the Ben Franklin Ledger method of long-term planning to help direct the future course of the business.
5. List the two steps in the simplified approach to organizing business activities.
6. Discuss the three aspects of supervision as they relate to the management function.
7. List in order the three steps involved in management control.
8. Describe the five personality characteristics that contribute to successful management of a small business.
9. List the six characteristics in the composite profile of a successful businessman as prepared by the psychologists at Western Reserve University.
10. Discuss the five guidelines for the development of the functions needed for effective management of a small business.
11. Discuss the five reasons why managers of small businesses fail to manage.
12. List the five steps in development of effective time management.
13. Discuss five of the twelve categories of reasons for not delegating responsibility.
14. List three ways employees can escape duties that are assigned to them.

MANAGEMENT: FUNCTIONS, CHARACTERISTICS AND EVALUATION
UNIT III - FIRST SESSION

INSTRUCTIONAL MATERIALS

I. Included in this unit:

  A. Objectives

  B. Information sheet

  C. Transparency masters

    1. TM #1--Business Organization in an Economic System

    2. TM #2--Contributors to Small Business Success

  D. Assignment sheets

    1. Assignment sheet #1--Rating Scale for Evaluating Personal Traits of Small Business Owner-Managers

    2. Assignment sheet #2--Assessment of Qualities for Potential Success

  E. Test

II. Audio-visuals--Cassette tape

III. References

  A. Stegall-Steinmetz-Kline. Managing the Small Business. Homewood, Illinois: Richard D. Irwin, Inc.

  B. Pickle-Abrahamson. Small Business Management. Santa Barbara, California: John Wiley & Sons, Inc.

  C. Baumback-Lawyer-Kelley. How to Organize and Operate a Small Business. Englewood Cliffs, New Jersey: Prentice Hall.

  D. Klatt. Small Business Management: Essentials of Entrepreneurship. Belmont, California: Wadsworth Publishing Company, Inc.

MANAGEMENT: FUNCTIONS, CHARACTERISTICS AND EVALUATION
UNIT III - FIRST SESSION

INFORMATION SHEET

I. Terms and definitions

   A. Management--Effective utilization of the elements of production: labor, materials, capital and equipment

   B. Successful entrepreneur--One who possesses a hardworking, middle-class set of social values with little desire to move up the social ladder, coupled with an unremitting, unyielding desire to achieve and accomplish certain objectives

II. The functions of management and their definitions

   A. Planning--Determining both long-term and short-term objectives (goals) for the business and deciding what methods will be used to achieve them

   B. Organizing--Establishing positions and deciding which duties and responsibilities belong to each

   C. Staffing--Finding the right person for the right job

   D. Supervising--Observing the work of others to insure it is done properly and according to established policy

   E. Directing--Assisting employees in the handling of extraordinary situations which cannot be anticipated by stated or routine policy

   F. Controlling--Comparing planned objectives with actual records to determine corrective actions

   G. Coordinating--A harmonious meshing of all activities of the business achieved through planning, control, supervision and direction

   H. Innovating--A deliberate creative process which consists of always looking for a better way to perform every function in the organization

   I. Representing--Acts as a representative of the business through memberships in organizations, informal conversations, and as a business spokesman dealing with suppliers, customers, etc.

III. Planning involves both short- and long-term objectives

   A. Short-term planning--Forecasting demand, determine production or sales goals, and then preparing budgets and production schedules accordingly. Such planning is short lived, usually a year or less

B. Long-term planning--Establishment of goals for an extended period of time such as five or ten years. These may include such things as total volume desired, with which products, to what customers, by what methods. It also requires preparing a schedule which anticipates when various goals will be met

IV. The Ben Franklin Ledger is one common method employed to help direct long-term planning efforts

A. List every possible factor that may have a bearing on the enterprise securing the widest possible diversity of viewpoints

B. Study and evaluate this information

C. Base your decision or plans on the results

V. The simplified approach to organizing business activities

A. Write down what the business must accomplish to be successful

B. Then subdivide or list all the activities that must be performed

C. These should then be grouped in related activities such as selling, producing, etc.

VI. The three aspects of supervision related to the management function

A. Observation to see that duties are being performed correctly

B. Training or correction of those activities being performed incorrectly

C. As new and better methods are acquired, the supervisor should encourage their use

VII. The three steps involved in management control

A. Set standards or objectives for accomplishment

B. Maintain current operating records for comparison with standards set

C. Act promptly when operations deviate too much from the goals established to ensure compliance

VIII. Personality characteristics that contribute to successful management

A. Drive--a person's motivation toward a task

B. Mental ability--consists of overall intelligence, creative thinking ability, and analytical thinking ability

C. Human relations ability--personality factors such as emotional stability, personal relations, sociability, consideration, and tactfulness

- D. Communications ability--the ability to communicate effectively in both written and oral communications
- E. Technical knowledge--the all-encompassing know-how related to the business

IX. Six characteristics in the composite profile of a successful businessman

- A. The successful small businessman is a gambler or adventurer
- B. The successful small businessman is decisive
- C. The successful small businessman is versatile
- D. The successful small businessman is a finisher
- E. The successful small businessman is self-confident
- F. The successful small businessman is a benevolent despot

X. Five guidelines for the development of the functions needed for effective management of a small business

- A. Be dynamic; make things happen
- B. Shift from a doer to a manager
- C. Do not become concerned with pleasing everyone
- D. Become result-oriented
- E. Work through organization to become effective

XI. Five reasons why managers fail to manage

- A. Wasting time
- B. Avoidance of certain duties
- C. Inability to assign work
- D. Letting subordinates avoid tasks
- E. Self-pity versus luck

XII. Five steps in development of effective time management

- A. Rank the various jobs in order of importance
- B. Divide them into at least two classes based on the manager's ability to control the time when they will be performed
- C. Decide which ones can best be delegated to other members of the organization

- D. Determine those where time can be saved in the long run by adopting suitable procedures
- E. Select or formulate suitable aids to time economy

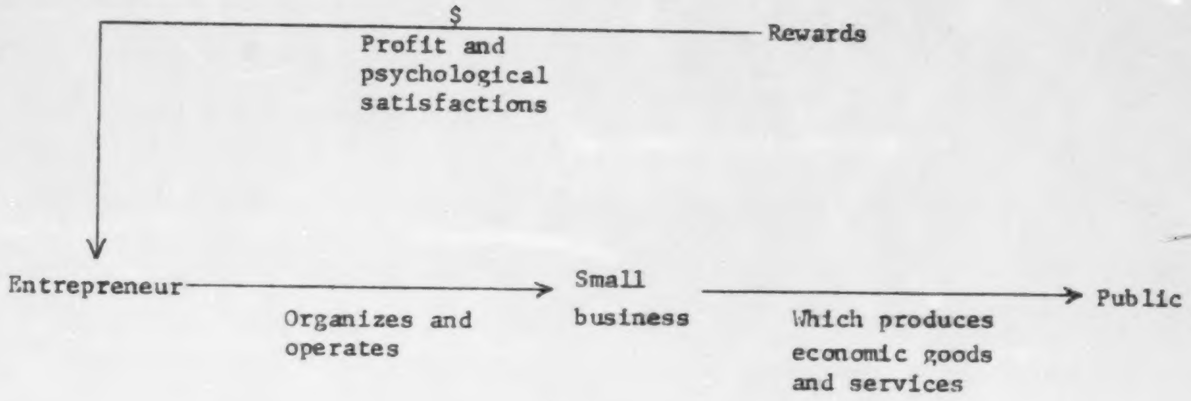
XIII. Categories of reasons given by managers for failure to delegate responsibilities

- A. Desire to maintain all authority
- B. Feel that they can do it better themselves, thus refusing to permit others to do a "substandard" job
- C. Inability to communicate to subordinates precisely what it is that must be accomplished, when, where, and how much
- D. Lack of confidence in their subordinates' abilities to do the work which should be delegated to them
    - 1. Afraid the subordinate will miss the main point
    - 2. Not sure of the subordinate's judgment in the unusual or uncommon situation
    - 3. Feel subordinate does not follow through
    - 4. Feel that the subordinate is too young to command respect
- E. Feel that they lack feedback or other controls
- F. Afraid that their subordinates will "outshine" them or otherwise prove they know as much or more than the boss
- G. Afraid to trust anyone besides themselves
- H. Suffering from a martyr complex--desire to have people feel sorry for them
- I. Possessed by a "guilt drive"--they feel guilty if they have nothing to do
- J. Fear they will be criticized for being too much of a taskmaster
- K. Want to do the job themselves
- L. Simply don't know what to delegate

XIV. Three ways employees can escape duties that are assigned

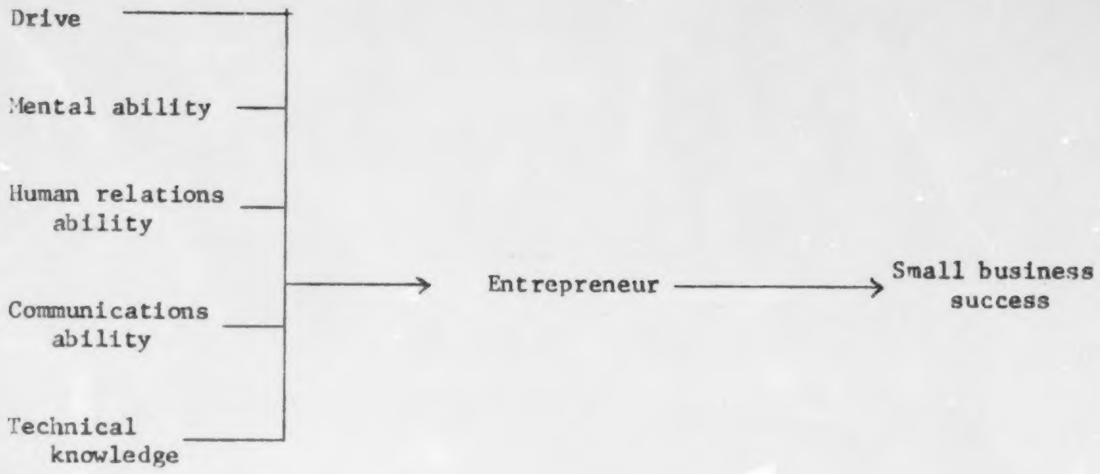
- A. "Delegate back" to the boss
- B. Slow down, claiming they have too much to do
- C. They "know" the boss will not be happy with their work so they wait for the boss to "do it right" in the first place

BUSINESS ORGANIZATION IN AN ECONOMIC SYSTEM


$
Rewards
Profit and psychological satisfactions
Entrepreneur
Organizes and operates
Small business
Which produces economic goods and services
Public

Source:Pickle-Abrahamson. Small Business Management. p. 24.

CONTRIBUTORS
TO
SMALL BUSINESS SUCCESS


Drive
Mental ability
Human relations ability
Communications ability
Technical knowledge
Entrepreneur
Small business success

Source: Pickle-Abrahamson. *Small Business Management.* p. 26.

TM 2

MANAGEMENT: FUNCTIONS, CHARACTERISTICS AND EVALUATION
UNIT III - FIRST SESSION

ASSIGNMENT SHEET #1--RATING SCALE FOR EVALUATING PERSONAL TRAITS OF SMALL BUSINESS OWNER-MANAGERS

1	2	3	4	5
Poor--not acceptable at all; failure to measure up	Fair--barely acceptable, must improve; between 1 and 3	Good--acceptable; only average; can improve	Very Good--better than average; between 3 and 5	Excellent--top quality; commendable performance

1. PERSONALITY, ENTHUSIASM

1	2	3	4	5
Not an agreeable person; apparently does not like people, as employees or as customers		Lukewarm; agreeable but not very friendly; acceptable behavior in most situations		Pleasing and congenial personality; contagious enthusiasm and inspirational manner

2. ACCEPTANCE OF CRITICISM

1	2	3	4	5
Resents any criticism as personal; does not welcome suggestions or advice		Accepts advice casually; reacts slowly to suggestions		Welcomes constructive help of any kind; anxious to learn from any likely source

3. ABILITY TO LEARN

1	2	3	4	5
Slow to change his thinking--"set in his ways" or lacking in ability to understand and adjust to training and experience		Able to adjust to change within reasonable time; not particularly aggressive in thinking or in grasping new concepts and procedures; learns slowly but retains well		Grasps ideas and methods readily; analytical of situations and alert to changes; retains and uses what he learns

1	2	3	4	5
Poor--not acceptable at all; failure to measure up	Fair--barely acceptable, must improve; between 1 and 3	Good--acceptable; only average; can improve	Very Good--better than average; between 3 and 5	Excellent--top quality; commendable performance

4. INDUSTRY

1	2	3	4	5
Puts in minimum of time and effort, avoids responsibility of extra work; lays off frequently, arrives late, etc.		Performs adequately and well the routine functions of management, but not an aggressive manager		Works early and late as needed to keep business at maximum efficiency; a conscientious and hard worker

5. INITIATIVE

1	2	3	4	5
Does little thinking for himself; no originality, little resourcefulness or imagination; not a creative person		Occasionally has a good idea, but may not try it, until encouraged; follows line of least resistance		Resourceful, inventive and self-reliant; can usually [illegible] himself out of difficulties without assistance gets good ideas, puts them into action

6. DECISION

1	2	3	4	5
Hesitant, ultraconservative		Prompt, confident, usually sound decisions, "plays the percentages"		Prompt, courageous, yet not reckless

7. RESPONSIBILITY

1	2	3	4	5
Avoided whenever possible		Accepted without protest or complaint; handles major responsibilities effectively		Sought and welcomed

1	2	3	4	5
Poor--not acceptable t all; ailure to measure up	Fair--barely acceptable, must improve; between 1 and 3	Good--acceptable; only average; can improve	Very Good--better than average; between 3 and 5	Excellent--top quality; commendable performance

8. PERSERVERANCE

1	2	3	4	5
Little or none		Average determination and persistence		Steadfast in purpose; not easily discouraged

9. PLANNING ABILITY

1	2	3	4	5
Poor planner and organizer		Does generally fair job of planning--acceptable		Good organizer; planning is farsighted

10. LEADERSHIP

1	2	3	4	5
Tolerated by employees but not respected as leader		Diplomatic and tactful order giver; may not delegate well		Obtains top performance from all employees; inspires loyalty to company and self; can delegate authority

Source: Baumback-Lawyer-Kelley. How to Organize and Operate a Small Business. pp. 68-70.

MANAGEMENT: FUNCTIONS, CHARACTERISTICS AND EVALUATION
UNIT III - FIRST SESSION

ASSIGNMENT SHEET #2--ASSESSMENT OF QUALITIES FOR POTENTIAL SUCCESS

Directions: If the statement is only rarely or slightly descriptive of your behavior SCORE 1. If the statement is applicable under some circumstances, but only partially true, SCORE 2. If the statement describes you perfectly, SCORE 3.

SCORE

1. I relish competing with others. . . . . ____
2. I compete intensely to win regardless of the rewards. . . . . . . ____
3. I compete with some caution, but will often "bluff" . . . . ____
4. I do not hesitate to take a calculated risk for future gain . . . ____
5. I do a job so effectively that I get a definite feeling of accomplishment. . . . . ____
6. I want to be "tops" in whatever I elect to do . . . . ____
7. I am not bound by tradition . . . . ____
8. I am inclined to forge ahead and discuss later. . . . . ____
9. Reward or praise means less to me than a job well done. . . . . . ____
10. I usually go my own way regardless of others' opinions. . . . . . ____
11. I find it difficult to admit error or defeat. . . . . ____
12. I am a self-starter--I need little urging from others . . . . . . ____
13. I am not easily discouraged . . . . ____
14. I work out my own answers to problems . . . . ____
15. I am inquisitive. . . . . ____
16. I am not patient with interference from others. . . . . ____
17. I have an aversion to taking orders from others . . . . ____
18. I can take criticism without hurt feelings. . . . . ____
19. I insist on seeing a job through to the finish. . . . . ____
20. I expect associates to work as hard as I do . . . . ____
21. I read to improve my knowledge in all business activities . . . . ____

TOTAL . . . . ____

urce: Baumback-Lawyer-Kelley. How to Organize and Operate a Small Business. p. 71.

MANAGEMENT: FUNCTIONS, CHARACTERISTICS AND EVALUATION
UNIT III - FIRST SESSION

ANSWERS TO ASSIGNMENT SHEETS

Assignment Sheet #1

There are no correct answers to this assignment sheet. It is suggested, however, that the participant have others make the same evaluation so that there will be data for comparison. Other information in this packet can be used to explain methods of overcoming problem areas.

Assignment Sheet #2

A score of 63 is "perfect"; 52 to 62 is "good"; 42 to 51 is "fair"; and under 42, "poor". However, scoring high here is no guarantee of becoming a successful small businessman, since many other personal qualities must be rated as well. It is only an indication that success is highly probable.

MANAGEMENT: FUNCTIONS, CHARACTERISTICS AND EVALUATION
UNIT III - FIRST SESSION

TEST

1. Briefly describe the following terms:

    a. Management

    b. Successful entrepreneur

2. Match the functions on the right to the correct definition.

_____ a. Determining the objectives of the business and deciding what methods will be used to achieve them.

_____ b. Finding the right person for the right job.

_____ c. A deliberate creative process which consists of always looking for a better way

_____ d. Comparing planned objectives with actual records to determine corrective actions

_____ e. A harmonious meshing of all activities of the business

_____ f. Acting as a representative of the business in public situations

_____ g. Assisting employees in handling extraordinary situations which cannot be anticipated

_____ h. Establishing positions and deciding which duties and responsibilities belong to each

_____ i. Observing the work of others to insure it is done properly

1. Planning
2. Organizing
3. Staffing
4. Supervising
5. Directing
6. Controlling
7. Coordinating
8. Innovating
9. Representing

3. Distinguish between short- and long-term planning by placing an "X" to the left of the statement representing long-term planning.

_____ a. Forecasting demand, determining production or sales goals, and then preparing budgets and production schedules.

_____ b. Determining total volume desired, with which products, to what customers, by what methods.

4. List in order the three steps involved in management control

   a.

   b.

   c.

5. Describe the five personality characteristics that contribute to successful management of a small business.

   a. Drive--

   b. Mental ability--

   c. Human relations ability--

   d. Communications ability--

   e. Technical knowledge--

6. Indicate the first step in time management by placing an "X" to the left of the proper response.

   _____ a. Select or formulate suitable aids to time economy

   _____ b. Decide which tasks can best be delegated to others

   _____ c. Rank the various jobs in order of importance

7. Briefly discuss each of the following categories of reasons for not delegating responsibility.

   a. Feel that they can do it better themselves, thus refusing to permit others to do a "substandard" job.

   b. Feel that they lack feedback or other controls.

c. Afraid that their subordinates will "outshine" them or otherwise prove they know as much or more than the boss.

d. Possessed by a "guilt drive"--they feel guilty if they have nothing to do.

e. Simply don't know what to delegate.

MANAGEMENT: FUNCTIONS, CHARACTERISTICS AND EVALUATION
UNIT III - FIRST SESSION

ANSWERS TO TEST

1. a. Effective utilization of the elements of production: labor, materials, capital and equipment.

   b. One who possesses a hardworking, middle-class set of social values with little desire to move up the social ladder, coupled with determination to accomplish planned objectives

2. a. 1

   b. 3

   c. 8

   d. 6

   e. 7

   f. 9

   g. 5

   h. 2

   i. 4

3. b.

4. a. Set standards or objectives for accomplishment

   b. Maintain current operating records for comparison with standards

   c. Act promptly to correct any deviations

5. a. Drive--a person's motivation toward a task

   b. Mental ability--overall intelligence, creative thinking and analytical thinking

   c. Human relations ability--personality factors such as emotional stability, personal relations, sociability, etc.

   d. Communications ability--effective oral and written communications

   e. Technical knowledge--all-encompassing know-how related to the business

6. c.

7. a. It must be recognized that the "I can do it better myself" is a fallacy. Even if a manager can do a job better he must nevertheless delegate it to someone who can do the job well enough. Look at the benefits of the total operation which will arise from spending time supervising instead of doing.

   b. The solution is relatively simple. Control means feedback, and feedback can be gained through written or oral reports, periodic observation, or the employment of management-by-exceptions principle where management handles only the extraordinary.

   c. Should not be a reason for inability to delegate work. The sign of a good manager is one who recognizes his shortcomings and compensates for them by hiring qualified employees.

   d. Easily overcome once the manager accepts it for what it is -- an obstacle to the successful operation of the business. Leisure time is a perfectly ordinary, legitimate, and common goal for which most people work. It is also a necessary one in terms of physical health.

   e. Anyone pretending to own, operate, and manage a small business must be fully aware of his obligation to manage, leaving the technical doing to subordinates. His primary responsibilities are to the management functions. Routine work should be delegated.

MOTIVATION: HUMAN NEEDS, BEHAVIOR AND INDIVIDUAL DIFFERENCES
UNIT III - FIRST SESSION

UNIT OBJECTIVE

After completion of this unit, the participant should be able to explain why it is important for a manager to acquire at least a general understanding of human behavior and motivation. The participant should be able to describe motivation and its relationship to human needs. The participant should be able to identify and distinguish among the five needs in Maslow's hierarchy. The participant should be able to explain why individual differences are significant and name two basic categories of characteristics in which people differ. The participant should be able to describe Herzberg's M-H Theory and classify eight job factors as either hygiene or motivator factors. This knowledge will be evidenced through demonstration and by scoring eighty-five percent on the unit test.

SPECIFIC OBJECTIVES

After completion of this unit, the participant should be able to:

1. Match terms associated with Motivation, Human Needs, Behavior and Individual Differences to the correct definition.
2. Describe the traditional approach to motivating people and indicate why it is inadequate.
3. Define and describe motivation, indicating two common beliefs about it.
4. Define and describe needs and such related terms as tension, incentives, and frustration.
5. Identify two types of behavior that may be exhibited when an individual is frustrated.
6. Specify what a manager's goal should be to effectively motivate his employees.
7. List four types of behavior which may be indicative of frustration and four situations which might cause it.
8. Name and describe two fundamental premises of Maslow's hierarchy of needs.
9. Identify and distinguish between the five needs in Maslow's hierarchy.
10. Name two incentives that can be utilized in meeting each of the five needs described in the hierarchy.

11. Explain why money is a complicated incentive and when it might be used effectively as a motivator.

12. Recognize that although the basic needs of people are similar, individual differences are significant.

13. Name two broad areas in which people differ and give two specific examples in each area.

14. List and describe four complex/subtle aspects of human needs.

15. Explain why Herzberg's theory on motivation is often called the two-factor theory.

16. Identify, explain, and classify four factors which Herzberg described as hygiene factors.

17. Identify, explain, and classify four factors which Herzberg described as motivators.

18. Recognize that there are strengths and weaknesses in the Herzberg theory.

MOTIVATION: HUMAN NEEDS, BEHAVIOR, AND INDIVIDUAL DIFFERENCES
UNIT III - FIRST SESSION

SUGGESTED ACTIVITIES

I. Instructor:

  A. Provide participants with objective sheet.

  B. Provide participants with information and assignment sheet.

  C. Discuss unit and specific objectives.

  D. Discuss information and assignment sheets.

  E. Give test.

II. Participant:

  A. Read objectives.

  B. Study information sheet.

  C. Complete assignment sheet.

  D. Insure you can achieve each specific learning objective.

  E. Take test.

INSTRUCTIONAL MATERIALS

I. Included in this unit:

  A. Objectives

  B. Information sheets

  C. Transparency masters

    1. TM 1--Simplified Illustration of Motivation

    2. TM 2--An Illustration of Motivation

    3. TM 3--Maslow's Hierarchy of Needs

    4. TM 4--Herzberg-Job Factors and Attitude

  D. Assignment sheet

    1. Discussion case

    2. Review Questions

  E. Test

MOTIVATION: HUMAN NEEDS, BEHAVIOR AND INDIVIDUAL DIFFERENCES
UNIT III - FIRST SESSION

INFORMATION SHEET

I. Terms and definitions

- A. Motivation--A willingness to act or behave
- B. Need--Something within an individual that prompts him to engage in behavior directed toward goal attainment or incentives
- C. Tension--The stimulus as a result of an unsatisfied need, that causes goal-directed behavior
- D. Incentives--Objects or goals toward which motivated behavior is directed--that when reached, will satisfy needs
- E. Frustration--When motivated behavior is blocked from achieving a goal or satisfying a need
- F. Personality--The unique traits and characteristics of an individual
- G. Acquired needs--Social needs, such as the need for belongingness and esteem, that are learned through experience and association with other people

II. Background on motivation

- A. Carrot and stick theory
  1. The traditional, economic, "rational" approach to motivating people
  2. It's not that simple; how do you "buy" a positive attitude
- B. People are motivated by a wide array of social/psychological needs
  1. Job performance depends upon factors other than pay, ability and skill
  2. People are not "cogs" in a machine
- C. As a manager, you should acquire at least a general understanding of human behavior and motivation
  1. The success/profitability of a business depends upon how effective the manager accomplishes goals through others efforts
  2. Effective motivation requires an understanding of employee needs, goals, aspirations, personality, joys, disappointments, etc.
  3. Working with people is complicated

III. What is motivation?

- A. Motivation is concerned with why people do what they do
    - 1. Motivation--"a willingness to act or behave"
    - 2. Common beliefs about motivation
        - a. Assumed from observable behavior
        - b. An internal, psychological process that is not directly observable
        - c. All behavior is seen to be:
            - 1) Goal-directed
            - 2) Instrumental in fulfilling a need
- B. Need
    - 1. Need--"something within an individual that prompts him to engage in behavior directed toward goal attainment or incentives"
    - 2. Every individual has a set of needs that "must" be met somehow (Transparency #1)
    - 3. Other important related definitions
        - a. Tension--"the stimulus as a result of an unsatisfied need that causes goal-directed behavior"
        - b. Incentives--"objects or goals toward which motivated behavior is directed"
        - c. Frustration--"when motivated behavior is blocked from achieving a goal or satisfying a need"
- C. What if one cannot satisfy a need-frustration?
    - 1. Constructive or adaptive reaction
        - a. Solving a problem in an "acceptable" manner
        - b. Seeking an alternate goal
    - 2. Defensive or maladaptive behavior
        - a. Reacting aggressively, in a hostile manner
        - b. Excessive use of rationalization and other defense mechanisms

D. An illustration of motivation (Transparency #2)

E. Motivation and effective management

1. Management's goal should be: to provide opportunities for employees to satisfy their needs, that will also facilitate attainment of the business's goals

2. Managers should attempt to create a healthy, supportive work environment

3. Managers must be able to recognize symptoms of frustration and eliminate or minimize such situations

a. Evidence of frustration: complaining, tardiness, absenteeism, squabbles, unhappy work climate

b. Frustrating situations: low pay, poor working conditions, no social interaction, favoritism, boring work

IV. Abraham H. Maslow--Hierarchy of Needs

A. Two fundamental premises

1. A priority of needs is assumed

a. Lower order needs must be satisfied before higher order needs emerge or motivate

b. This is especially true with the first three needs

2. Only unsatisfied needs influence behavior

B. Maslow's hierarchy (Transparency #3)

1. Physiological needs

a. Inborn or innate needs--food, water, sleep

b. Also called the "biological needs"--vital to survival

2. Safety needs

a. The need for physical safety, economic security and psychological security

b. Application/Incentives

1) safe healthy working conditions

2) Job security

3) Avoid a coercive, threatening approach to supervision

3. Belongingness/Social needs
    a. We are social beings--in need of supportive, satisfying relationships with others
        1) Families, clubs, churches, informal groups
        2) Influences our attitude and behavior
    b. Few people ever satisfy this recurring need
    c. Application/Incentives
        1) When feasible, provide an opportunity for social interaction
        2) Emphasize teamwork and supportive relationships
4. Esteem/Recognition Needs
    a. The need to be recognized, appreciated, and respected, the concern for status and prestige
    b. Few people ever satisfy this recurring need
    c. Application/Incentives
        1) Treat people with respect as worthwhile human beings
        2) Sincere recognition and thanks for good performance and special contributions
        3) Delegate as warranted by ability and performance
        4) Encourage constructive suggestions and ideas
5. Self-actualization need
    a. The need to learn, grow and excel
    b. "What a man can be, he must"
    c. Few people ever satisfy this recurring need
    d. Application/Incentives
        1) Encourage people to do their best
        2) Provide an opportunity to excel and a challenge

C. Management's use of the hierarchy

1. A starting point for understanding motivation and behavior

2. Utilize those incentives which:
    - a. Motivate one to perform at a high level
    - b. Provide an opportunity to satisfy human needs

D. Money--a complicated incentive

1. Can and often does affect the satisfaction of all five needs in Maslow's hierarchy
2. The significance of money lies in its meaning to the recipient
3. It has been used effectively to motivate when it can be related directly to results

V. Individual differences

A. Although people tend to have similar kinds of basic needs, behavior patterns vary considerably due to personalities

1. Because people have unique traits and characteristics (personalities), individual differences are significant
2. Common traits center around such basic needs as the need for food, water, safety, belongingness and recognition

B. Ways in which individuals differ

1. Heredity and physical characteristics
    - a. Height, age, coordination, vitality
    - b. Mental ability
2. Social characteristics
    - a. Group memberships--family, clubs, social groups, church
    - b. Socio-economic class--type of work, income
    - c. Education and training background
    - d. Ability to get along with people
    - e. Interests, goals, initiative
    - f. Unique, specific experiences

C. Complex/subtle aspects of needs

1. Behavior is generally multi-need determined

2. The needs of each individual, as a total "mix of needs", are unique

a. Social needs, such as belongingness and esteem, are learned or "acquired" through experience and association with other people

b. Since each person's experiences and associations are unique, the impact of social needs upon this behavior is unique

c. Individuals don't place the same value on pay, promotion, security, working conditions, prestige, etc.

3. The strength and combination of needs changes

4. Emotions have a complex but pervasive impact on human needs and behavior

5. The manner in which people seek to meet their needs (even if the needs are similar) may vary greatly

a. Perceptions of reality may not be reality

b. Behavior may not be optimal

VI. Frederick Herzberg--Motivation-Hygiene (M-H) Theory

A. Basis: A study published in 1959 involving 200 engineers and accountants employed in eleven different firms

1. Questions asked in interviews dealt with how these employees felt about their job

2. Specifically, what makes you feel especially "good" and "bad" about the job

3. Response/Results: "Dichotomy of satisfaction"

a. Factors that produce job satisfaction or a positive attitude are separate and distinct from those that can lead to job dissatisfaction or a negative attitude

b. This is why the theory is also called "two factor theory"

B. Hygiene/maintenance factors

1. Defined--job conditions or factors that, when present or met, prevent job dissatisfaction; if not present, they will cause dissatisfaction

2. Examples: company policy, salary, working conditions, job security, supervision

3. Other characteristics of hygiene factors
    a. External or peripheral to the job
    b. Improvement in this area doesn't tend to motivate one
    c. Nevertheless, hygiene factors are an important and necessary base upon which to build

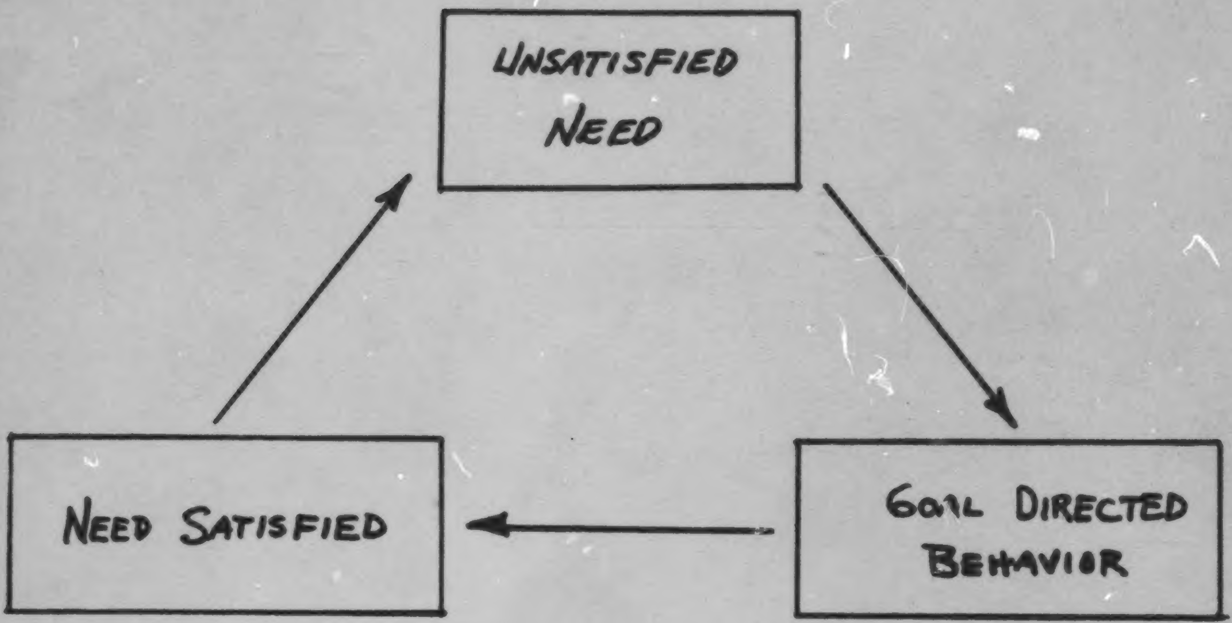
C. Motivator factors

1. Defined--job conditions or factors that, when present or met, build high levels of motivation and job satisfaction; if not present, they do not prove highly dissatisfying
2. Examples: achievement, recognition, work itself, responsibility, advancement
3. Other characteristics of motivators
    a. Job-centered factors
    b. Tend to correspond with Maslow's higher order needs
    c. Highly motivated employees have a high tolerance for dissatisfaction

D. Herzberg in retrospect

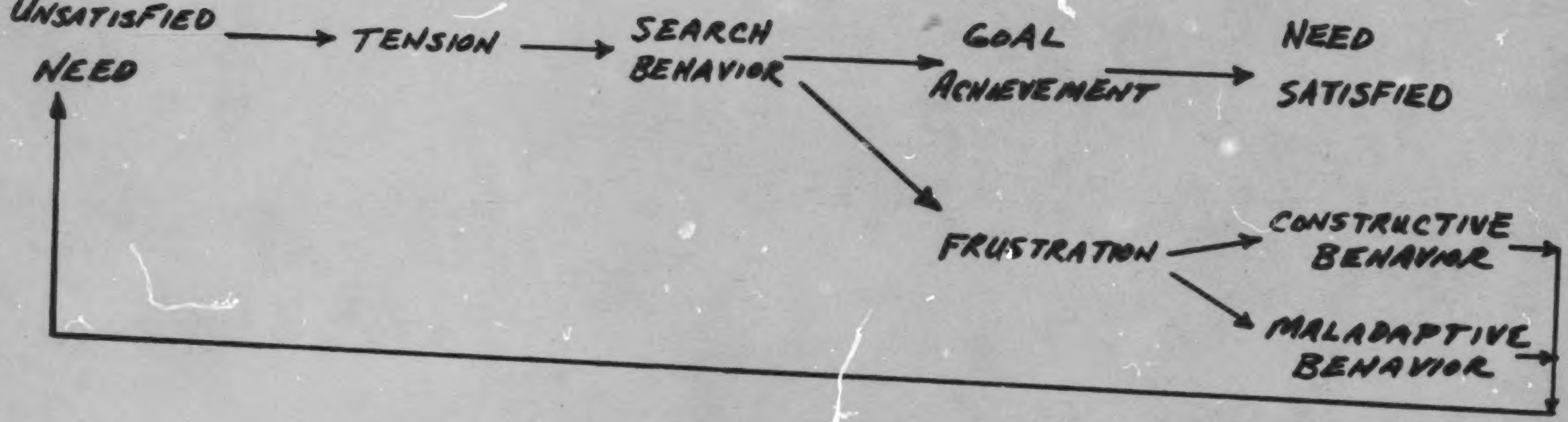
1. Positive aspects of the M-H theory
    a. Highlighted factors perceived as important and motivating
    b. Extended Maslow's ideas into the work environment
    c. Stimulated additional research
    d. Additional studies by Herzberg involving assemblers, maintenance personnel, supervisors, military officers and educators support the original study's findings
2. Criticisms of the M-H Theory
    a. Ignores individual differences
    b. Those responding to the questions may have been unaware of or unwilling to admit what dissatisfies them
    c. Pay and security can be motivators

SIMPLIFIED ILLUSTRATION OF MOTIVATION


UNSATISFIED NEED
GOAL DIRECTED BEHAVIOR
NEED SATISFIED

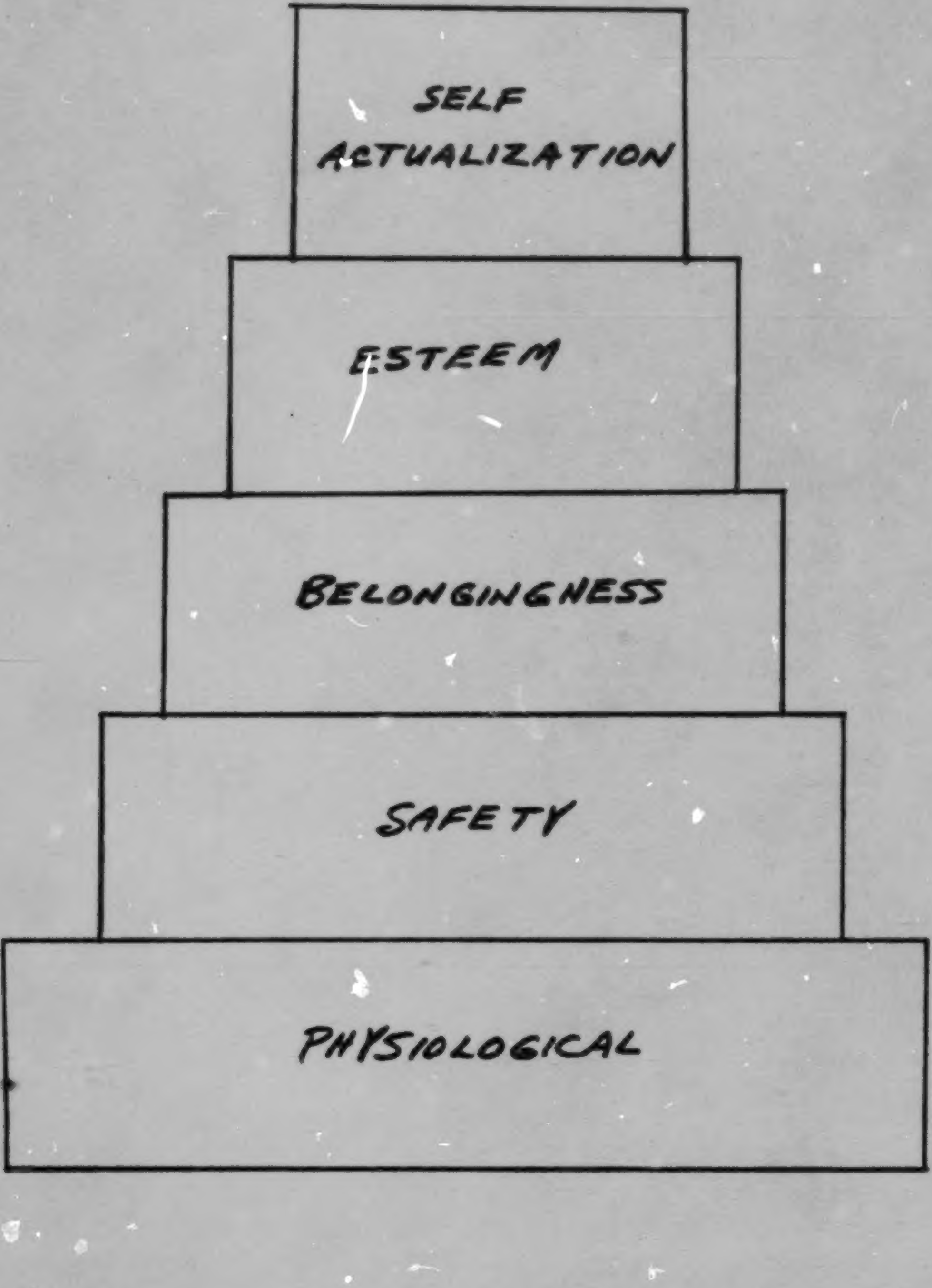
T.M. 1

AN ILLUSTRATION OF MOTIVATION


UNSATISFIED NEED
TENSION
SEARCH BEHAVIOR
GOAL ACHIEVEMENT
NEED SATISFIED
FRUSTRATION
CONSTRUCTIVE BEHAVIOR
MALADAPTIVE BEHAVIOR

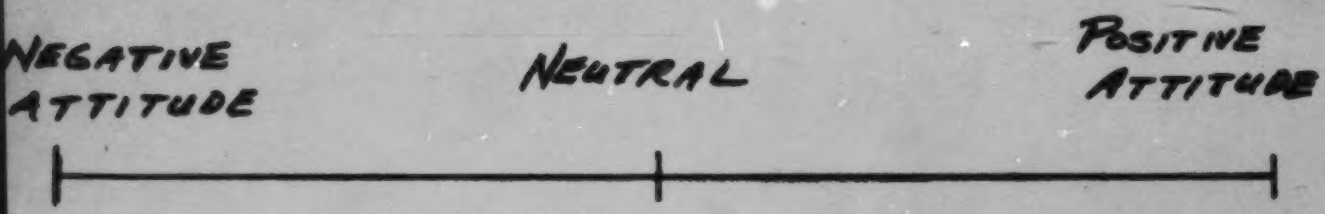
TM 2

MASLOW'S HIERARCHY OF NEEDS


SELF ACTUALIZATION
ESTEEM
BELONGINGNESS
SAFETY
PHYSIOLOGICAL

T.M. 3

HERZBERG – JOB FACTORS AND ATTITUDE


NEGATIVE ATTITUDE
NEUTRAL
POSITIVE ATTITUDE

HYGIENE FACTORS	MOTIVATORS
Company Policy	Achievement
Salary	Recognition
Working Conditions	Work Itself
Job Security	Responsibility
Supervision	Advancement

T.M. 4

MOTIVATION: HUMAN NEEDS, BEHAVIOR AND INDIVIDUAL DIFFERENCES
UNIT III - FIRST SESSION

ASSIGNMENT SHEET-DISCUSSION CASE

THE POST

It was only two weeks ago when Mr. Doran noticed that Emily didn't seem to be getting a fair shake. There she was, after fourteen years in his department, stuck at an old desk which was jammed up against a post in the back of the room. Why hadn't he realized earlier that she should have one of the better desks by the window? She deserved it on seniority alone. He certainly would lose no time in clearing up _that_ situation--move her that very day to one of the "choice" desks.

But since then something seems very wrong. Emily is restless and uneasy, and her work isn't as accurate as usual. What good does it do to recognize people and reward them if this is the way it turns out? Better talk it over with her.

"Emily, I've been wondering about you lately. It doesn't seem as if you're as happy as you used to be. What's the matter?"

"Oh, nothing. Nothing. I'm fine."

"But you sure don't seem like the same Emily we used to have around here. And your work isn't up to what it was. You're one of our best girls. I don't get it."

"I'm sorry, Mr. Doran. I'm really sorry."

"I don't want you to be sorry. I want you to be satisfied, but you seem to be uncomfortable. I gave you a better desk, didn't I?"

"Well, Mr. Doran--I--I miss my old post. I used to be able to look up and see my calendar and notes and things on it and I feel lost without it. This space here seems so empty. I sure miss my post. Can I move back?"

1. Is this a reasonable attitude for Emily to have?

2. What should Doran have done?

3. What can he do now?

REVIEW QUESTIONS

1. What is wrong with the traditional or economic approach to motivation?

2. What might lead you as a manager to believe your employees are experiencing a frustrating situation?

3. What different incentives can an entrepreneur utilize to meet esteem or recognition needs?

4. Can money motivate an employee to perform at a higher level?

5. Do you think individual differences are significant? If so, why?

6. Distinguish between the impact of hygiene and motivator factors upon job attitude, satisfaction and motivation.

MOTIVATION: HUMAN NEEDS, BEHAVIOR AND INDIVIDUAL DIFFERENCES
UNIT III - FIRST SESSION

TEST

Match the following terms with the definitions listed below:

a.	motivation	d.	incentives
b.	need	e.	frustration
c.	tension	f.	acquired needs

_____ 1. The stimulus as a result of an unsatisfied need, that causes goal-directed behavior

_____ 2. Something within an individual that prompts him to engage in behavior directed toward goal attainment or incentives

_____ 3. Social needs, such as the need for belongingness and esteem, that are learned through experience and association with other people

_____ 4. Objects or goals toward which motivated behavior is directed--that when reached, will satisfy needs

_____ 5. A willingness to act or behave

_____ 6. When motivated behavior is blocked from achieving a goal or satisfying a need

7. Generally, it is believed that people are motivated

   a. only by providing more pay and better job security

   b. by keeping them happy

   c. by a wide array of physiological and social needs

   d. only by physiological needs

8. Which of the following is true concerning motivation

   a. it is a simple, rational process

   b. it is an internal, psychological process not directly observable

   c. it is concerned with large groups of people rather than individuals

   d. people should be treated as "cogs in the machine"

9. All behavior is seen to be

   a. goal-directed

   b. instrumental in fulfilling a need

   c. both a. and b. are true

10. If one cannot satisfy a need, he may react by excessively utilizing such defense mechanisms as rationalization. This is an example of:

    a. defensive or maladaptive behavior

    b. constructive behavior

    c. desirable employee behavior

11. To effectively motivate, a manager should provide opportunities for employees to satisfy their needs, that will also facilitate attainment of the business's goals.

    a. true

    b. false

12. Which of the needs in Maslow's hierarchy are considered to be inborn or innate?

    a. esteem

    b. self-actualization

    c. belongingness

    d. physiological

13. Providing an opportunity for social interaction and encouraging teamwork are examples of incentives appealing primarily to the need for:

    a. esteem

    b. safety

    c. belongingness

    d. self-actualization

14. Treating employees with respect and taking time to say "thank you" for special efforts and contributions, are examples of incentives appealing primarily to the need for:

    a. safety

    b. esteem

    c. belongingness

    d. self-actualization

15. Individual differences are significant because people differ in regard to their

    a. family backgrounds

    b. hereditary characteristics

    c. socio-economic class

    d. group memberships

    e. all of the above

16. Which of the following might be considered complex or subtle aspects of needs?

    a. the needs of people are exactly the same as a whole "mix"

    b. the strengths and combinations of needs within an individual never change

    c. behavior is usually determined by several unsatisfied needs

    d. physiological needs are learned or acquired through association with other people

17. Why was Herzberg's study called the two factor theory?

    a. the study involved two categories of employees--accountants and engineers

    b. Herzberg found that the factors associated with a positive attitude and motivation are separate and distinct from factors associated with job dissatisfaction

    c. the study was conducted in two separate intervals of time

18. Salary, job security, policy and working conditions are examples of what type of job factors according to Herzberg?

    a. motivators

    b. hygiene factors

19. Which job factors can build high levels of motivation and job satisfaction according to Herzberg?

    a. hygiene factors

    b. working conditions

    c. recognition

    d. company policy

    e. all of the above

20. Which of the following are criticisms of Herzberg's M-H Theory?

    a. ignores individual differences

    b. recognition can never be a motivator

    c. conflicted with Maslow's findings

    d. too much emphasis on non-job, personal factors

MOTIVATION: HUMAN NEEDS, BEHAVIOR AND INDIVIDUAL DIFFERENCES
UNIT III - FIRST SESSION

ANSWERS TO TEST

1. c
2. b
3. f
4. d
5. a
6. e
7. c
8. b
9. c
10. a
11. a
12. d
13. c
14. b
15. e
16. c
17. b
18. b
19. c
20. a

FINANCIAL RECORD KEEPING AND STATEMENTS
UNIT III - SECOND SESSION

UNIT OBJECTIVE

After completion of this unit, the participant should be able to explain why it is important for a small business to have an effective financial record keeping system and how such a system might be established. The participant should be able to identify the two main financial statements and recognize common terms and terminology associated with each. The participant should be able to explain why cost analysis and control are important to the small business manager and describe how performance standards relate to cost control.

SPECIFIC OBJECTIVES

After completion of this unit, the participant should be able to:

1. Match terms associated with Financial Record Keeping and Statements to the correct definition.
2. Name six objectives of an accounting system.
3. Identify three ways in which an accounting system can be established.
4. Distinguish between natural expenses and functional categories of expenses.
5. Explain suggested record keeping procedures for equipment, sales, cash transactions and purchases.
6. Identify and distinguish between the two main financial statements.
7. Identify and properly classify items associated with the two main financial statements.
8. Name two broad areas of concern in interpreting financial statements.
9. List five categories of financial information that a cost accounting system or cost analysis process might be concerned with.
10. Identify four steps in establishing and utilizing performance standards.
11. Describe how the labor dollar can be spent more effectively.

FINANCIAL RECORD KEEPING AND STATEMENTS
UNIT III - SECOND SESSION

SUGGESTED ACTIVITIES

I. Instructor:

   A. Provide participant with objective sheet.

   B. Provide participant with information and assignment sheets.

   C. Provide cassette tape.

   D. Discuss information and assignment sheets as required.

   E. Give test.

II. Participant:

   A. Read objectives.

   B. Study information sheet and listen to tapes.

   C. Complete assignment sheet.

   D. Insure you can achieve each specific learning objective.

   E. Take test.

INSTRUCTIONAL MATERIALS

I. Included in this unit:

   A. Objectives

   B. Information sheets

   C. Transparency masters

      1. TM 1--Balance Sheet

      2. TM 2--Income Statement

   D. Assignment sheet--Discussion questions

   E. Test

FINANCIAL RECORD KEEPING AND STATEMENTS
UNIT III - SECOND SESSION

INFORMATION SHEET

I. Terms and definitions

A. Balance sheet--A statement showing a business's financial position in terms of assets, liabilities and owner's equity on a specific date

B. Income statement--A statement showing operating results in terms of revenues and expenses over a period of time

C. Natural expense--An expense in the most narrow, limited sense, such as payroll, taxes, or interest

D. Functional class of expenses--A broad, inclusive category of expense such as selling, to which several natural expenses may be distributed or allocated

E. Balance sheet terms

1. Asset--An economic resource that benefits future operations

2. Current asset--An economic resource expected to be realized in cash, sold or consumed in one year or within the normal operating cycle

   a. Cash--Funds immediately available for use, such as in a checking account, cash register or petty cash

   b. Accounts Receivable--Amounts due from customers for products and services provided on credit

   c. Notes Receivable--Loans to individuals or businesses that will be due in a short time, evidenced by a promissory note

   d. Inventory--Items held for sale or consumption in the production of goods in the normal operation of the business

   e. Prepaid expense--An asset such as insurance, whose usefulness will expire in a short time

3. Property, plant, and equipment (fixed assets)--Those assets owned by the business that have a relatively long life or permanent nature and are not for sale but are used in the production and sale of other goods and services

4. Intangible asset--Assets having no physical substance, such as patents or franchises

5. Sundry assets--Often used as a miscellaneous or "catchall" category for assets that don't belong in another classification

6. Liability--An economic obligation or debt

7. Current liability--An economic obligation or debt that must be paid within one year or the normal operating cycle

   a. Accounts Payable--Amounts owed to suppliers, wholesalers, and other business creditors for purchases made on credit

   b. Notes Payable--Loans from individuals, businesses, and banks that will be due in a short time, evidenced by a promissory note

8. Long-term liability--An economic obligation or debt that isn't due within one year or the normal operating cycle--such as mortgages and long-term notes payable

9. Owner's Equity (capital or net worth, proprietor's or partner's equity)--The owner's investment of capital in the business or the excess of total assets over total liabilities

F. Income Statement Items

1. Revenue--Income from the sale of products or services, rent or interest earned, gains on asset disposal

2. Expense—Expenditures made and resources used to generate revenue

3. Cost of goods sold--A category of expense giving the value of the goods sold at cost

4. Gross profit--Revenues less cost of goods sold

5. Operating expenses--Those expenses such as selling, distribution, administrative and general expenses, that are incurred in the normal operation of the business

6. Operating Income--Income generated from the normal operations of a business or gross profit less operating expenses

7. Net Income or Profits--Revenue less all expenses, or operating income less any expenses not previously deducted--such as unusual losses or taxes. Also called profits

II. Financial record keeping system

A. The need for an effective accounting system

1. The small business should have a system that facilitates constant, accurate and complete accounting of all business transactions

  - a. Transactions must be recorded, classified and summarized in financial reports
  - b. Effective planning and control can result only if the accounting system provides the essential financial information for:
    - 1) Assessing the current situation and position of the business
    - 2) Determining current and future needs
    - 3) Measuring success and progress
    - 4) Sound decision-making

2. The business environment is very competitive, dynamic and complex
   - a. Nature of the economy and associated fluctuations
   - b. Federal, state and local government impact
3. "Lack of adequate records"--a consistently recurring factor in at least 90% of the businesses that fail
   - a. Problems are not detected in time to take corrective action--e.g., declining sales in key product line(s)
   - b. May be unknowingly operating illegally
   - c. Time spent keeping adequate records today often saves time tomorrow seeking out required information
   - d. Business decision-making entails enough risk without trying to rely on hunches, a "seat-of-the pants" approach, memory, or any basis other than the available facts

B. The objectives of an accounting system

1. Provide information on the business's financial position--financial stability and solvency, in the form of a balance sheet
2. Provide information on the business's profitability--past operating results, in the form of an income statement
3. Provide the information required for filing tax reports and paying taxes to federal, state and local governments
4. Facilitate analysis and comparison of financial data with past results and industry standards
5. Facilitate forecasting and budgeting

6. Provide a basis for establishing or obtaining credit
7. Safeguard assets--reduce the chances for theft or fraud
8. Highlight waste, inefficiency, excessive expenses and other problem areas requiring the manager's attention
9. Reflect the unique aspects and situation of the business
    a. Collect and process all business transactions at low cost
    b. As simple as possible and still meet management's needs

C. Establishing an accounting system

1. Trade associations often have "model" systems available for adoption
2. Commercial agencies such as Johnson, Blackbourn or Ideal have "model" accounting systems designed for specific types of businesses
3. An accountant can design a system for the entrepreneur's business

D. Classification of expenses for a retailer

1. Each item of expense should have a separate account. For example:
    a. Payroll, property rent, advertising, supplies, non-professional services, donations, bad debts, equipment rental, and unclassified
    b. These accounts or classes are called "natural"
2. The natural expenses are distributed or allocated to each of five major functional classes:
    a. Administration
    b. Occupancy
    c. Buying
    d. Selling
    e. Publicity
3. The above classification of expenses is recommended by the National Retail Merchant's Association for department and general merchandise stores

E. Other suggested record keeping procedures

1. Equipment--maintain separate records for each piece of equipment to show
    a. Original cost
    b. Down payment and monthly payments
    c. Depreciation schedule
    d. Other data as required
2. Sales--daily sales should be recorded and classified by product line, sales person, and department
    a. Identification can be by sales slips, special cash register keys or cash registers whose use is for one department only
    b. Credit customers
        1) Usually they sign the sales slip
        2) Should be indicated by a key on the cash register
        3) Individual accounts on each credit customer should be maintained and posted daily
3. Cash transactions--let the bank help you
    a. Deposit all cash receipts in a checking account
    b. Write a check for all disbursements except the very small, minor expenses
    c. Use a "petty cash fund"--setting an amount aside in cash for small and minor cash expenditures such as postage
        1) Keep a record of petty cash expenditures
        2) When the petty cash fund is reimbursed, charge the appropriate expenses
4. Purchases on account
    a. Good credit is a valuable asset and invoices should be paid on time
        1) One convenient end-of-the-month payment is usually made
        2) An opportunity is provided to inspect goods before making payments

b. An invoice file can be kept with a section for each day of the month--invoices are then filed on the date to be paid

c. File paid invoices by company in an alphabetical file

d. Attach any credit memos to the applicable invoice

III. Financial Statements

A. Two principle financial statements

1. Balance sheet

a. Can be thought of as a "picture or snapshot" in that it shows where you are, at a certain point in time

b. Shows what the business has, what it owes and the owner's interest

2. Income Statement

a. Can be thought of as a "motion picture" in that it summarizes business operations over a period of time --usually between two balance sheet dates, and shows how you got where you are

b. Shows if you have been profitable

3. Almost every business transaction will affect these two statements

B. Balance sheet items and terminology

1. Review the definitions in section I, item E

2. Other aspects of the balance sheet

a. Accounts receivable are often shown net of an allowance for doubtful accounts--an amount we are not likely to collect

b. Inventory--often shown at the lower of cost or market

c. Machinery, equipment, buildings and other fixed assets--shown at original cost less accumulated depreciation

1) Value of the asset declines as time passes and it is utilized

d. For a sole proprietorship or partnership, it is common to show the owner's equity as one entry--not distinguish any accumulated, retained earnings from the original investment

3. Reference TM 1--Balance Sheet

C. Income Statement items and terminology

1. Review the definitions in section I, item F

2. Other aspects of the Income Statement

a. Cost of goods sold is usually the principle expense a business incurs

b. Cost of goods sold is determined by adding the beginning of the period inventory to net purchases (cost of goods manufactured for a manufacturing firm) and from that total, subtracting the end of the period inventory

c. To avoid distorting profitability, include the salary or "draw" of the owner

1) For a sole proprietorship or partnership, this salary or "draw" is considered part of net income for tax purposes

2) For a corporation, the salary or "draw" is not considered part of net income and may be deducted

d. Although depreciation is not a cash expense, it is a legitimate expense in that it represents a reduction in the value of the assets

3. Reference TM 2--Income Statement

D. Interpretation of financial statements

1. It is frequently helpful to present financial statements for the current period and at least one preceding period for comparison

2. Two broad main areas of concern

a. Financial stability and solvency

1) Short run--the liquidity and adequacy of working capital to insure creditors, employees and others are paid on time

2) Long run--the relationship between long-term debt and the owner's equity, usefulness of fixed assets, mortgages, etc.

b. Profitability--revenues (sales), expenses and relationships between these two items,

1) Examine revenues and expenses and the relationships between them

2) Look for trends

3. Ratio analysis is an excellent technique for analyzing financial statements

IV. Cost analysis and control

A. Introduction

1. Profit margins and profitability will improve as expenses are reduced, if expense reductions do not reduce sales or cause an offsetting increase in other expenses

a. Avoid degrading essential customer services

b. Carefully monitor operating efficiency

2. Cost accounting and analysis facilitates:

a. Evaluation of past performance

b. Control of current activities

c. Planning for the future

3. A cost accounting system or cost analysis process may entail gathering, summarizing, and reporting such financial information as:

a. Current and forecasted sales data

b. Cost of goods sold data to include inventory control, purchase, and freight costs

c. Selling or distribution expenses such as advertising, promotion, delivery, and sales wage expenses

d. General or administrative expenses such as salaries for non-selling personnel, insurance, taxes, rent, and utility expense

e. Production output and quality levels

f. Profitability by product, product line or market segment

g. Expense standards or budgeted goals

4. Relevance and economic feasibility are important considerations

a. The system or process should be tailored to the needs of the small business manager

b. It is probably not possible or feasible to have all the facts

1) Consider the investment of time and money in the record keeping system

2) The information provided should be relevant and usable

B. Establishing and using performance standards

1. The entrepreneur should determine ahead of time the results or performance he expects in order to establish performance standards

a. In the area of sales, costs and expenses

b. Performance standards should be objective, clearcut, reasonable and reflect expected business conditions

2. Actual results should be promptly reported and compared with the standard to detect any variations

3. Analyze significant variances to determine the reason for them and what can be done

4. Take corrective action

C. Budgeting--a formalized technique of establishing performance standards and highlighting deviations

D. Costs/expenses are often allocated or assigned to:

1. Products or product lines--enables you to assess profitability of that product

2. Departments or processes--enables you to assess efficiency and/ or profitability

3. Major functional classes (as noted in section II item D2 of this packet

a. Many expenses such as labor, rent and utilities, serve two or more functional areas such as selling and administrative

b. This enables you to assess the efficiency with which a function is being accomplished

E. Effective use of labor

1. Do a better job of recruiting and hiring

2. Improve employee training

3. Emphasize supervision, motivation, morale, teamwork and cooperation

4. Work simplification and improved organization

5. Higher wages for reliable, qualified help often reduces labor costs due to a compensating increase in output or productivity

6. Consider part-time employees

F. More effective control and utilization of advertising expenditures

G. Clearly identify those costs which are controllable and concentrate your time and effort here

WILSON COMPANY
BALANCE SHEET
DECEMBER 31, 1977

ASSETS

Current Assets			
Cash		$ 4,000	
Accounts Receivable		5,000	
Notes Receivable		500	
Inventory		9.800	
Prepaid Insurance		200	
Supplies on hand		300	
Total Current Assets			$ 19,800
Property, Plant and Equipment			
Store fixtures	$ 2,100		
Less: Accumulated Depreciation	800	$ 1,300	
Delivery Equipment	$ 8,000		
Less: Accumulated Depreciation	3,000	5,000	
Office Equipment	$ 2,400		
Less: Accumulated Depreciation	1,200	1,200	
Total Property, Plant and Equipment			7,500
Total Assets			$ 27,300

LIABILITIES AND OWNER'S EQUITY

Current Liabilities		
Accounts Payable	$ 6,000	
Notes Payable	1,000	
Total Current Liabilities		$ 7,000
Long-term Liabilities		
Mortgage Payable		4,000
Owner's Equity		
Thomas Wilson, Capital		16,300
Total Liabilities and Owner's Equity		$ 27,300

TM 1

WILSON COMPANY
INCOME STATEMENT
FOR THE MONTH OF DECEMBER, 1977

Revenue				
Sales				$62,700
Less: Sales Returns and Allowances			$ 300	
Sales Discounts			900	1,200
Net Sales				$61,500
Cost of Goods Sold				
Inventory (December 1)			$ 8,000	
Add: Net Purchases				
Purchases		$42,000		
Less: Purchase Returns and Allowances	$1,000			
Purchase Discounts	800	1,800		
		$40,200		
Add: Transportation In		600	40,800	
Cost of Goods Available for Sale			$48,800	
Less: Inventory (December 31)			9,800	
Cost of Goods Sold				39,000
Gross Profit on Sales				$22,500
Operating Expenses				
Selling Expenses				
Salesperson's Salaries		$ 8,000		
Delivery Expenses		3,620		
Advertising		250		
Depreciation on Delivery Equipment		100		
Total Selling Expenses			$11,970	
Administrative Expenses				
Rent Expense		$ 2,400		
Office Salaries		2,000		
Utilities Expense		580		
Supplies Used		50		
Total Administrative Expenses			5,030	
Total Operating Expenses				17,000
Operating Income				$ 5,500
Less: Taxes on Operating Income				1,500
Net Income for December				$ 4,000

TM 2

FINANCIAL RECORD KEEPING AND STATEMENTS
UNIT III - SECOND SESSION

ASSIGNMENT SHEET

1. What is the difference, if any, between gross profit and net income?

2. Why do you think a small business needs an effective system of financial record keeping?

3. Name the five objectives you consider most important for an accounting system.

   a.

   b.

   c.

   d.

   e.

4. Who can the entrepreneur look to for assistance in establishing an accounting system?

   a.

   b.

   c.

5. Distinguish between the purposes of a balance sheet and an income statement.

6. Why are equipment and buildings usually shown at original cost less accumulated depreciation?

7. For tax purposes, a proprietor's salary or "draw" is considered part of net income. Discuss.

8. What kinds of financial information is a cost accounting system or cost analysis concerned with?

9. What characteristics should performance standards have?

10. What can be done to make more efficient use of the labor dollar expenditure?

FINANCIAL RECORD KEEPING AND STATEMENTS
UNIT III - SECOND SESSION

TEST

Match the following terms with the definitions listed below:

a. balance sheet
b. income statement
c. natural expense
d. functional class of expense
e. current asset
f. inventory
g. intangible asset
h. current liability
i. gross profit
j. net income

_____ 1. Assets having no physical substance, such as patents or franchises.

_____ 2. An expense in the most narrow, limited sense, such as payroll, taxes or interest.

_____ 3. Revenues less cost of goods sold.

_____ 4. An economic resource expected to be realized in cash, sold or consumed in one year or within the normal operating cycle.

_____ 5. A statement showing a business's financial position in terms of assets, liabilities, and owner's equity on a specific date.

_____ 6. Items held for sale or consumption in the production of goods in the normal operation of the business.

_____ 7. A broad, inclusive category of expense such as selling, to which several natural expenses may be distributed or allocated.

_____ 8. An economic obligation or debt that must be paid within one year or the normal operating cycle.

_____ 9. Revenue less all expenses.

_____ 10. A statement showing operating results in terms of revenues and expenses over a period of time.

11. An effective accounting system will do which of the following?

    a. Record, classify and summarize all business transactions

    b. Aid in measuring success and profitability

    c. Facilitate needs assessment and decision-making

    d. All of the above

12. At least 90% of the businesses that fail lack adequate records.

    a. True

    b. False

13. The objectives of an accounting system include which of the following?

    a. Eliminate all risk and insure profitable operations

    b. Highlight inefficiency, waste and excessive expenses

    c. Eliminate the need for filing tax returns

    d. Insure all accounting systems are identical regardless of the type of business

14. Why are "functional" classes of expenses, such as buying, necessary in addition to "natural" classes?

    a. The I.R.S. (Internal Revenue Service) requires them

    b. The books will not balance otherwise

    c. Many expenses, such as labor and rent, serve two or more functional areas

    d. All of the above

15. Is it necessary or advisable to maintain separate records for each piece of equipment purchased?

    a. Yes

    b. No

16. Which financial statement can be thought of as a "motion picture", summarizing business operations over a period of time?

    a. Balance sheet

    b. Income statement

17. Depreciation expense on the income statement is:

    a. Not a cash expense

    b. Not a genuine expense

    c. Considered necessary to establish an "equipment replacement fund"

    d. All of the above

18. The interpretation of financial statements usually centers around two broad areas of concern: profitability and

    a. Return on investment

    b. Gross margins

    c. Financial stability and solvency

    d. Expense control

19. Which of the following is true concerning the establishment and use of performance standards?

    a. Can be used for either costs or sales

    b. Should be clearcut and reasonable

    c. Actual results should be promptly compared with performance standards

    d. All of the above

20. When should performance standards be determined?

    a. Ahead of time so you will know the performance expected

    b. After day-to-day operating results are known

FINANCIAL RECORD KEEPING AND STATEMENTS
UNIT III - SECOND SESSION

ANSWERS TO TEST

1. g
2. c
3. i
4. e
5. a
6. f
7. d
8. h
9. j
10. b
11. d
12. a
13. b
14. c
15. a
16. b
17. a
18. c
19. d
20. a

PLANNING FOR SUCCESS
UNIT III - SECOND SESSION

UNIT OBJECTIVE

After completion of this unit, the participant should be able to explain the importance of planning to the success of a small business, discuss the requirements for effective planning, and describe the steps in the planning process. He should further be able to develop a master plan, short-term plan, and policies and procedures to complement his particular situation. This knowledge will be evidenced through demonstration and by scoring eighty-five percent on the unit test.

SPECIFIC OBJECTIVES

After completion of this unit, the participant should be able to:

1. Match terms associated with planning to the correct definition.
2. Discuss the four operations involved in the planning function.
3. Name two of three reasons why planning is critical to the success of the business.
4. List and describe two reasons businessmen often neglect planning.
5. Explain how the owner-manager might delegate some of the responsibility for planning.
6. Name four of seven requirements for sound planning.
7. List the four parameters businessmen should use in trying to be "constructively imaginative" in their planning.
8. Discuss the basic considerations that should be evaluated prior to establishment of a plan of operation.
9. Explain the steps in planning.
10. Indicate three questions that might get the manager started in his planning activities.
11. List three advantages of long-range planning.
12. Explain the relationship between short-term planning and the master plan.
13. Describe the function of policies and standard operating procedures.
14. List two advantages of preparing written policies and procedures.

PLANNING FOR SUCCESS
UNIT III - SECOND SESSION

INSTRUCTIONAL MATERIALS

I. Included in this unit:

- A. Objectives
- B. Information sheet
- C. Transparency masters
    - 1. TM #1--Requirements for Sound Planning
    - 2. TM #2--Steps in Planning
- D. Job Sheet #1--Creative Problem Solving
- E. Assignment Sheet #1--Planning for the A to Z Fabric Shop
- F. Test

II. References

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PLANNING FOR SUCCESS
UNIT III - SECOND SESSION

INFORMATION SHEET

I. Terms and definitions

  A. Planning--A thinking process which deals with the reasoned determination of a future course of action

  B. Master plan--A well defined, long-term plan of operation for the business used to guide the business successfully toward a predetermined set of objectives or goals

  C. Short-term planning--A precise guide for actualizing the master plan in an efficient and effective manner for a short period of time

  D. Policy--A fundamental statement which serves as a guide to routine management practices and procedures

  E. Standard operating procedure--Established standardized methods of handling various operations such as taking credit applications, stocking shelves, or unpacking merchandise

II. The four operations involved in the planning function

  A. Setting down objectives in writing

  B. Establishing guidelines for achieving objectives

  C. Developing an orderly and well-planned strategy of operation based on the guidelines established

  D. A mental search for possible problems and solutions to be confronted in the future

III. Three reasons why planning is critical to the success of the business

  A. The small firm cannot afford mistakes

  B. Necessary to be progressive if the business is to grow and expand to meet the changing needs of patrons

  C. If approaching others for aid, either financial or other, it is usually necessary to submit a written plan

IV. Two reasons businessmen often neglect planning

  A. Time--he often finds it necessary to attend to more immediate needs as waiting on customers or preparing orders

- B. Lack of appreciation of its value--often seen as "postponable" and not absolutely necessary

V. Progressive management is discovering that employees can think and contribute to the development of solutions to problems in business, thus contributing to the planning process

- A. Owner should concentrate on hiring staff that is capable of supporting his planning activities in addition to handling routine obligations
- B. Motivate employees to contribute by various means available
  1. Call attention to problems that exist
  2. Make recommendations for possible solutions

VI. Requirements for sound planning (TM 1)

- A. See the situation as a whole
- B. Divide whole into workable parts or units
- C. Use constructive imagination
- D. Be objectively analytical
- E. Measure the effect of the plan
- F. Avoid getting bogged down in details
- G. Be prepared to work with large quantities of unknowns

VII. The four parameters businessmen should use in trying to be "constructively imaginative" in their planning

- A. Quantity of business expected
- B. Quality of the work expected
- C. Time when the goals are expected to be realized
- D. Cost including budgeted or other financial restraints on successful implementation of goals

VIII. Basic considerations in establishing a plan of operation (master plan) for the small business

- A. Must have a realization of the difference between dreaming and realistic planning in relation to the business and its resources
- B. Strategies and tactics of the master plan are limited only by uncertainty and imagination

C. The independent businessman has an advantage in planning because he can shape the operation to meet his capabilities and aspirations, and create alternative plans to meet and/or avoid crises

D. Formally written plans are usually accomplished while informal plans are avoided, ignored, and otherwise overlooked

IX. Steps in planning (TM 2)

A. Identify problem or recognize a need for action

B. Formulate basic assumptions or premises focusing on those most likely to influence the operation of the business in relation to the problem or needed action

1. Noncontrollable conditions

2. Semicontrollable conditions

3. Controllable conditions

C. Collect and classify pertinent facts relevant to the problem or needed action

D. Distinguish between alternative courses of action

E. Analyze data in relation to each alternative

F. Select a course of action

G. Put the plan into action

X. The hardest part of planning is getting started. To overcome this problem a few pertinent questions relative to your business may help

A. Why are you in business?

B. What do you expect to accomplish?

C. What is your place in the relative scheme of things?

D. How do you carve a better competitive niche?

E. What share of the market do you want?

F. Do you have a plan for new product development or acquisition?

G. Do you have any specific goals for profit improvement?

XI. Advantages of long-range planning (master plan)

A. Requires a direct effort to look into new growth areas, thus avoiding stagnation and/or low profit areas

B. It not only shows areas of operation which the firm should consider but discloses when action must be taken

C. It helps you take stock of your operation and identify sources of strengths and weakness which exist

D. It highlights future needs such as additional manpower, machinery, additional facilities or a new location

E. Helps stabilize the firm in the short-run because it serves as a source of perspective

XII. Short-term planning is applied to the more immediate time period--usually a year or less

A. Deals with the future and is planned using the same process as the master plan

1. Does not permit total reshaping and redirection of the business

2. Requires much more careful and specific formulation

B. Allows for dealing with specific problems and issues which cannot always be anticipated in long-term planning

C. Provides opportunity to work within framework of long-run plans in the most efficient and effective way possible

D. Permits the vague, ambiguous areas of the master plan to jell into shape

XIII. Policies and standard operating procedures are designed to enable the owner to make prompt decisions on specific problems in light of guidelines established to meet the situation

A. Does not mean the policy should dictate the decision

B. Since the policy was arrived at through the planning process, it has been arrived at logically, thus reducing the time necessary to resolve the problem as well as insuring that the pressures and time restraints of the daily routine do not adversely affect decisions

XIV. Written policies offer a number of advantages for the businessman

A. Forces careful consideration of the issues

B. Encourages precise statements of the firm's position

C. Employees can act with greater confidence and feel more secure in their relationship with employers which affects productivity and moral

D. Employees can handle situations without employer assistance

REQUIREMENTS FOR SOUND PLANNING

SEE THE SITUATION AS A WHOLE

DIVIDE THE WHOLE INTO WORKABLE PARTS OR UNITS

USE CONSTRUCTIVE IMAGINATION

BE OBJECTIVELY ANALYTICAL

MEASURE THE EFFECT OF THE PLAN

AVOID GETTING BOGGED DOWN IN DETAILS

BE PREPARED TO WORK WITH LARGE QUANTITIES OF UNKNOWNS

TM 1

STEPS IN PLANNING

1. IDENTIFY THE PROBLEM OR RECOGNIZE A NEED FOR ACTION
2. FORMULATE BASIC ASSUMPTIONS OR PREMISES BASED ON PROBLEM OR NEED FOR ACTION
3. COLLECT AND CLASSIFY PERTINENT DATA
4. DISTINGUISH BETWEEN ALTERNATIVE COURSES OF ACTION
5. ANALYZE THE DATA IN RELATION TO EACH ALTERNATIVE
6. SELECT A COURSE OF ACTION
7. PUT THE PLAN INTO ACTION

TM 2

PLANNING FOR SUCCESS
UNIT III - SECOND SESSION

JOB SHEET #1--CREATIVE PROBLEM SOLVING
by Roger Augspurger

I. All have problems to solve and decisions to make

   A. Decisions made as a result of problem solving

      1. Sometimes decision is made too soon--before problem is solved

      2. Sometimes decision is made before problem is identified

      3. Decisions made--later problem reappears (have only dealt with symptom)

      4. Boy with flat tire on bicycle

         a. Pump up

         b. Next day flat--decision effective for a while

         c. What's wrong? Didn't identify real problem

            1) How can I get air in tire

            2) How can I keep air in tire

II. Questions

   A. How many decisions have you made that worked "for a while?"

   B. How many decisions have you implemented that you knew were the best possible plan?

   C. How many of your problems are solved with "old" solutions drawn from past experience?

   D. If so, was it effective? Why did the problem arise again? Maybe it wasn't really solved.

III. New problems need new solutions

   A. New solutions

   B. Alternatives

   C. Involves a process--scientific process not "in the head quickie"

      1. Bicycle is "in head"

      2. How many of your important challenges are as simple as fixing a flat tire?

   D. Need to take advantage of natural intellect and creativity

IV. CPS Process

A. Five steps:

1. Sensitivity to problem--Gas Station

    a. Prices up--cut/rate and self service, compact cars, selling less gas

2. Problem-Finding

    a. How can I increase gas sales?

        1) Limited to gas only

        2) Ask why--increase profits

    b. How can I increase profits in my business

3. Fact-Finding

    a. What business am I in?

        1) Selling gas

        2) Selling accessories

        3) Servicing cars, trucks, etc.

        4) Helping people have good transportation

        5) Facilitating transportation--pleasure, business, moving, comfort, food

    b. Restate problem

        1) In what ways might I increase the facilitation of transportation

            a) Will increase volume of business

            b) Will increase profits

            c) Will stay current with transportation modes

4. Idea Finding--Deferring Judgment

    a. Self Service

    b. Cafe

    c. Ice for travelers

    d. U-Haul

        e. Bulk transport
        f. Depot
        g. City transportation system
        h. Taxi service
        i. Old people shuttle bus
        j. School transportation

    5. Solution Finding
    6. Acceptance Finding

B. Real Problem

1. Sensitivity to problems/challenges/opportunities

Being aware of new opportunities--new directions

"I am in the business of ______________________________. Right now there seems to be a balanced relationship between the size of my business and the present customer market. However, it has been projected that 200-300 new homes will be built in the community this summer and fall. Therefore, there will be new families moving to town. Present families will be relocating in town which will vacate existing homes. These homes in turn will probably be acquired by other people who will want to make changes, redecorate, improve, landscape and other alterations. There will be potential for increasing my volume of business if I'm ready for it. I will need to plan ahead."

2. Problem-statement

    a. In what ways might I sell more of my product
    b. Increase my business volume
    c. Make higher profits
    d. Direct sales more specifically toward new and relocated families
    e. Capitalize on the new homes to be built this year
    f. Broaden or adapt my business to include the new potential market

substitute
combine
adapt
modify
put to other use
expand
rearrange

PLANNING FOR SUCCESS
UNIT III - SECOND SESSION

ASSIGNMENT SHEET #1--PLANNING FOR THE A TO Z FABRIC SHOP

Using the information given below and the packet materials, develop what you would consider to be a practical master plan, the immediate short-term plan for the implementation of the master plan and policies that the manager might consider establishing in the near future. Be as detailed as you feel necessary.

The A to Z Fabric Shop

A to Z Fabric Shop is a small retailing firm specializing in the sale of fabrics, sewing notions (thread, zippers, tape, machine accessories, buttons), and patterns. In addition to the manager, there are two salespersons. Unfortunately, the store does not have a very positive image in the community. Many people feel the lack of concern for the customer is due primarily to the fact that this is the only fabric shop in town. The nearest competitor is located in a larger city 45 miles away. As a result, when shoppers went to the larger city, they tried to complete a number of shopping activities in one trip. However, for small items or a small amount of material, it was not practical to drive out of town. For the sake of convenience, customers bought only what was absolutely necessary in the A to Z shop.

Mrs. Whyte wanted to sew a new dress for herself to wear to the company Christmas party. However, she did not have the material and she did not have time to go to the larger city. Instead, she elected to go to the local store. When she arrived, she tried to find a salesperson but could not. Finally, she found the material herself and at last was able to locate a salesperson who completed the sale. However, when she got home and was getting ready to cut out her pattern, she noticed a flaw in the material. Consequently, she decided to return the material and ask for a refund.

Mrs. Whyte showed the material to one of the salespersons. She informed Mrs. Whyte that she could not make an adjustment, but she would have to see the manager. When Mrs. Whyte began to explain her problem, the manager's face became flushed. Finally, when Mrs. Whyte said she wanted a refund, the manager lost his temper. He dashed over to the cash register, jerked out the cash for the refund, and rudely pushed it into Mrs. Whyte's hand. As Mrs. Whyte was leaving, the store manager shouted at her, Don't ever come back to my store again!"

A. The master plan

PLANNING FOR SUCCESS
UNIT III - SECOND SESSION

TEST

1. Match the terms on the right to the correct definition.

____ a. A well-defined, long-term plan of operation for the business

____ b. A thinking process which deals with the reasoned determination of a future course of action

____ c. Established standardized methods of handling various operations

____ d. A precise guide for actualizing a long-term plan in an efficient and effective manner

____ e. A fundamental statement which serves as a guide to routine management practices

1. Planning
2. Master plan
3. Short-term plan
4. Policy
5. Standard operating procedure

2. Name two of three reasons why planning is critical to the success of the business.

a.

b.

3. Explain how the owner-manager might delegate some of the responsibility for planning.

4. List the steps in planning.

a.

b.

c.

d.

e.

f.

5. Indicate three questions that might get the manager started in his planning activities.

   a.

   b.

   c.

6. List three advantages of long-range planning.

   a.

   b.

   c.

7. Explain the relationship between short-term planning and the master plan.

8. Describe the function of policies and standard operating procedures.

PLANNING FOR SUCCESS
UNIT III - SECOND SESSION

ANSWERS TO TEST

1. a. 2
   b. 1
   c. 5
   d. 3
   3. 4

2. a. Cannot afford mistakes
   b. Necessary to be progressive to meet competition and demands
   c. Required when seeking aid of others

3. Hire staff that is capable of supporting planning activities and encourage them to contribute

4. a. Identify problem or recognize a need for action
   b. Formulate basic assumptions or premises based on problem or need for action
   c. Collect and classify pertinent data
   d. Distinguish between alternative courses of action
   e. Analyze the data in relation to each alternative
   f. Select a course of action
   g. Put the plan into action

5. a. Why are you in business?
   b. What do you expect to accomplish?
   c. What is your place in the relative scheme of things?
   d. How do you carve a better competitive niche?
   e. What share of the market do you want?
   f. Do you have a plan for new product development or acquisition?
   g. Do you have any specific goals for profit improvement?

6. a. Requires direct effort to look into new growth areas, thus avoiding stagnation or low profits or both

   b. Discloses when action must be taken

   c. Helps identify sources of strengths and weakness

   d. Highlights future needs

   e. Helps stabilize firm in short-run

7. Short-term planning is applied to the more immediate time period. It does not permit total reshaping and redirection of the business and requires much more careful and specific formulation. Thus, an opportunity is provided to work within the framework of long-run plans in the most efficient and effective way possible to eliminate any ambiguities in the master plan.

8. Designed to enable the owner to make prompt decisions on specific problems in light of guidelines established to meet the situation.

RATIO AND BREAK-EVEN ANALYSIS
UNIT III - THIRD SESSION

UNIT OBJECTIVE

After completion of this unit, the participant should be able to describe how ratio analysis can be used to analyze financial statement data. The participant should be able to explain how ratio analysis can help the small business manager evaluate profitability, liquidity, financial structure and stability. The participant should recognize break-even analysis as a valuable planning and control technique. The participant should be able to classify expenses as either fixed or variable and recognize the significance of such a classification. The participant should be able to apply break-even analysis to a sample problem. This knowledge will be evidenced through demonstration and by scoring eighty-five percent on the unit test.

SPECIFIC OBJECTIVES

After completion of this unit, the participant should be able to:

1. Match terms associated with Ratio and Break-even Analysis to the correct definition.
2. Explain the purpose of ratio analysis.
3. Identify two standards against which ratios may be compared and name four sources of information on industry standards.
4. List and describe the use of four ratios used to evaluate profitability.
5. List and describe the use of seven ratios used to evaluate short-term liquidity.
6. List and describe the use of three ratios used to evaluate financial structure and solvency.
7. Name five applications for break-even analysis.
8. Describe and distinguish between fixed and variable costs.
9. Demonstrate the ability to accomplish a break-even analysis.
10. Identify four limitations of break-even analysis.

RATIO AND BREAK-EVEN ANALYSIS
UNIT III - THIRD SESSION

SUGGESTED ACTIVITIES

I. Instructor:

  A. Provide participants with objective sheet.

  B. Provide participants with information and assignment sheet.

  C. Discuss unit and specific objectives.

  D. Discuss information and assignment sheets.

  E. Give test.

II Participant:

  A. Read objectives.

  B. Study information sheet.

  C. Complete assignment sheet.

  D. Insure you can achieve each specific learning objective.

  E. Take test.

INSTRUCTIONAL MATERIALS

I. Included in this unit:

  A. Objectives

  B. Information sheets

  C. Transparency masters

    1. TM 1--Balance Sheet

    2. TM 2--Income Statement

    3. TM 3--Break-even Graph

    4. TM 4--Break-even Graph

  D. Assignment sheets

    1. Ratios

    2. Break-even Analysis

  E. Test

RATIO AND BREAK-EVEN ANALYSIS
UNIT III - THIRD SESSION

INFORMATION SHEET

I. Terms and definitions

   A. Financial ratios show the relationship between various items on the financial statements

   B. Break-even analysis--an approach or technique for analyzing the relationship existing among costs, revenues and profits, as the volume of sales dollars or unit output changes

   C. Fixed costs--those costs that, in total, do not change when there are increases or decreases in the volume of activity

   D. Variable costs--those costs that, in total, change when there are increases or decreases in the volume of activity

II. Ratio analysis of financial statements

   A. What is ratio analysis

      1. Defined--Financial ratios show the relationship between various items on the financial statements

         a. A single item or dollar figure from a financial statement has only limited meaning by itself

         b. Items must be related to or compared with other items to be meaningful

      2. Purpose: to analyze financial statements and assess

         a. Profitability

         b. Liquidity and solvency

      3. Ratios must be carefully interpreted to determine their significance

   B. Proper interpretation of ratios entails comparison

      1. Compare them with your business's past experience and results

         a. Look for changes, trends, problems, and reasons why

      2. Compare them with your industry's standard ratios

3. Sources of information on industry standards
    a. Your industry's trade association
    b. Dun and Bradstreet--annually publish a series of ratios for 72 lines of business
    c. National Cash Register Company
    d. Robert Morris Associates
    e. Bankers
    f. Public accountants
4. Special considerations in comparing ratios
    a. Seasonal variations
    b. Economy
    c. Size of your business
    d. Location
    e. Comparability of components used to compute the ratios
    f. Other unique aspects of your business

C. Ratios to evaluate profitability
1. In terms of the owner's investment
    a. Return on investment (ROI) = $\frac{\text{Net Income}}{\text{Owner's Equity}}$
    b. Measures how efficiently the owner's investment is being utilized
    c. Compare it to what you could get on stocks, bonds and other investments
2. In terms of assets
    a. Return on assets (ROA) = $\frac{\text{Net Income}}{\text{Total Assets}}$
    b. Measures how efficiently assets are being utilized
3. In terms of the sales dollar
    a. Profit margin on sales = $\frac{\text{Net Income}}{\text{Net Sales}}$
    b. Gross profit (margin) to sales = $\frac{\text{Gross Profit}}{\text{Net Sales}}$

   c. An increase in sales is desirable - but profits should also increase

   d. Consider prices, markups, costs and expenses

4. Consider operating expense ratios

   a. Each type of expense can be expressed as a percentage of net sales

   b. These ratios measure operational efficiency or control of expenses

D. Ratios to evaluate short-term liquidity

1. Working capital position

   a. Working capital = Current assets - current liabilities

   b. Working capital should be adequate in amount, composition and liquidity

      1) How quickly are current assets being converted into cash

      2) Can the business "pay the bills" - purchases, payroll, utilities, taxes and other expenses

2. Current Ratio = $\frac{\text{Current Assets}}{\text{Current Liabilities}}$

3. Acid test ratio = $\frac{\text{Current assets - inventory}}{\text{Current liabilities}}$

   a. Like the current ratio, it measures a firm's ability to meet its current liabilities

   b. It is more conservative than the current ratio and omits inventories due to obsolescence and "write-offs"

4. Working Capital Turnover = $\frac{\text{Net Sales}}{\text{Working Capital}}$

   a. Indicates if working capital is being efficiently utilized to generate sales

   b. A lower current ratio might suffice if the turnover is relatively high

5. Analysis of receivables

   a. Accounts receivable turnover = $\frac{\text{Net credit sales}}{\text{Average accounts receivable}}$

   b. Average age or collection period = $\frac{365}{\text{Accounts Receivable Turnover}}$

c. Interpreting turnover and collection period data:

1) Indicates how quickly receivables are being collected on the average

2) Indicates efficiency in utilizing the working capital invested in receivables

3) Too low a turnover or a long collection period is not good

4) Too high a turnover or a short collection period may not be good

d. Bad debt ratio = $\frac{\text{Bad Debts}}{\text{Annual Credit Sales}}$

6. Analysis of inventory

a. Inventory turnover = $\frac{\text{Cost of Goods Sold}}{\text{Average Inventory}}$

b. Frequently, industry averages are computed for inventory turnover using net sales instead of cost of goods sold as follows:

Inventory turnover = $\frac{\text{Net Sales}}{\text{Average inventory}}$

c. Too low a turnover indicates an excessive investment in inventory and poor utilization of the working capital investment in inventory

d. Too high a turnover can indicate inadequate inventory levels and may result in stockouts or lost sales

E. Ratios to evaluate long-term solvency and financial structure

1. Evaluate the relationship between borrowed funds and invested capital

a. A critical aspect of the financial structure

b. Debt to equity ratio = $\frac{\text{Total debt}}{\text{Owner's equity}}$

c. Current liabilities to equity ratio = $\frac{\text{Current liabilities}}{\text{Owner's equity}}$

d. How much debt can you safely carry?

2. Evaluate the relationship between interest expense and profits

a. Interest Coverage Ratio = $\frac{\text{Net Income before Taxes}}{\text{Interest}}$

b. Indicates the number of times interest payments are earned--a safety margin

3. Evaluate the relationship between fixed assets and owner's equity
    a. Tangible net worth ratio = $\frac{\text{Fixed assets}}{\text{Owner's equity}}$
    b. Guard against purchasing too many fixed assets
4. Evaluate the relationship between net sales and total assets
    a. Asset turnover = $\frac{\text{Net Sales}}{\text{Total Assets}}$
    b. Are sufficient sales being generated in light of the assets being utilized
5. Other considerations
    a. A proper balance among the various classes of assets
    b. Profitability and the working capital position obviously affect the financial structure

III. Break-even analysis

A. Introduction

1. Break-even analysis is an approach or technique for analyzing the relationship existing among costs, revenues and profits, as volume (sales dollars or unit output) changes
2. It is an important planning and control technique--especially for evaluating profit potential

B. Applications of break-even analysis

1. Indicates how much volume in sales or other output, must be generated to break even or just cover all costs
2. Shows the impact on profits or losses, when volume or output is above or below the break-even point
    a. After a profit goal has been established, break-even analysis will indicate the required volume to meet that goal
    b. An economic recession or other negative event could be disastrous if the break-even point is too high
3. The break-even point or volume can be determined for total operations, departments, processes, product lines or products
4. It assists the manager in making decisions:
    a. Pricing
    b. Wages and justification for hiring new employees

c. Advertising expenditures

d. Optimum combination or "mix" of products to carry

5. Cost analysis and control

C. A cost classification

1. To utilize break-even analysis, we must classify costs as either fixed or variable

    a. The definitions of fixed and variable costs are based on how they react to changes in the volume of activity during a given accounting period or in the short-run

    b. Total Cost = Fixed + Variable Costs

2. Fixed costs-those costs that, in total, do not change when there are increases or decreases in the volume of activity

    a. Fixed costs must be incurred to keep the business going--even at a minimum level

    b. For a given accounting period, fixed costs do not vary, if basic capacity doesn't change

    c. Note: On a cost per unit basis, fixed costs do vary, declining as volume increases

    d. Examples of fixed costs

        1) Store and equipment rent

        2) Property taxes

        3) Supervisor and manager salaries

        4) Interest or debt

        5) Depreciation

3. Variable costs--those costs that, in total, change when there are increases or decreases in the volume of activity

    a. For purposes of break-even analysis, variable costs are assumed to increase in direct proportion to volume increases, and decrease in direct proportion to volume decreases

    b. On a cost per unit basis, variable costs are constant or fixed

    c. In the long run, most if not all costs are variable costs

d. Examples of variable costs

    1) Income taxes

    2) Sales commission and other selling expenses

    3) Cost of goods sold

    4) Direct labor and direct material for the manufacturing firm

    5) Some utility expenses

4. Semi-variable or mixed costs--those costs that have characteristics of both fixed and variable costs

    a. For break-even analysis purposes, they are assumed to be variable or fixed

    b. A matter of judgment

D. The break-even graph--Example #1, TM 3

1. Assume the following data, based on the income statement--TM 2

    a. Sales are $61,500

    b. Fixed costs are $10,750, determined as follows:

        1) $4,000 of the salesperson's salaries

        2) 2,000 of the delivery expenses

        3) 100 depreciation

        4) 2,400 rent expense

        5) 2,000 office salaries

        6) 200 of the utilities expense

        7) 50 supplies used

    c. Variable costs are $46,750 determined as follows:

        1) $39,000 cost of goods sold

        2) 4,000 of the salesperson's salary

        3) 1,620 of the delivery expenses

        4) 250 advertising expenses

        5) 380 of the utility expense

        6) 1,500 income tax expense

2. Procedure for drawing the graph
    a. Draw the fixed line horizontally
    b. Draw the total cost line
        1. It is \$10,750 at no sales
        2. It is \$57,500 at \$61,500 of sales (fixed costs plus variable costs)
    c. Draw the revenue line 45^{0}, since both axis represent revenue
3. Observations
    a. Profit or loss is shown at various levels of sales revenue
    b. B.E.P. (break-even point) is approximately \$44,000 of sales revenue, where the T.C. (total cost) line intersects the R (revenue) line or where sales revenues and total costs are the same
        1) Profit area: between R and T.C. above the B.E.P. sales revenue
        2) Loss area: between T.C. and R below the B.E.P. sales revenue
    c. It graphically illustrates the importance of maintaining a high level of sales to maximize profits and minimize losses
        1) Above the B.E.P., as sales increase, profits will increase at a greater rate
        2) Conversely, below the B.E.P., as sales decrease, losses will decrease at a greater rate
4. It isn't necessary to draw the graph, since it is actually a graphic representation of the profit equation
    a. $P = R - (FC + VC)$
    b. Since variable costs are assumed to change in direct proportion to volume changes, variable costs can be expressed as a percentage of sales revenue: $\frac{46750}{61500} = 76\%$
    c. To find the B.E.P. where P (profits) are 0

$$
\begin{aligned}
0 &= S - (10750 - .76S) \\
0 &= S - 10750 - .76S \\
0 &= .24S - 10750 \\
.24S &= 10750 \\
S &= \$44{,}792 \quad \text{(the exact B.E.P.)}
\end{aligned}
$$

    d. Given either P or R in this equation, the other variable can be solved for

E. The break-even graph--Example #2, TM 4

1. Assume the following data:
    - a. Your average customer spends $3.00
    - b. Variable costs are $.50 on the sales dollar or 50% of sales; therefore, $1.50 per customer
    - c. Fixed costs are $9,000
2. Procedure for drawing the graph
    - a. Draw the fixed line horizontally
    - b. Find the B.E.P. in the profit equation and let C = the number of customers

      $P = R - (VC + FC)$
      $0 = 3C - (1\frac{1}{2}C + 9000)$
      $0 = 3C - 1\frac{1}{2}C - 9000$
      $C = 6000$
    - c. If there are 6000 customers, revenue is $3.00 X 6000 = $18,000
    - d. Plot the break-even point and draw the revenue line and total cost line
3. To lower the B.E.P.
    - a. Increase prices
    - b. Decrease either fixed or variable costs

F. Limitations of break-even analysis

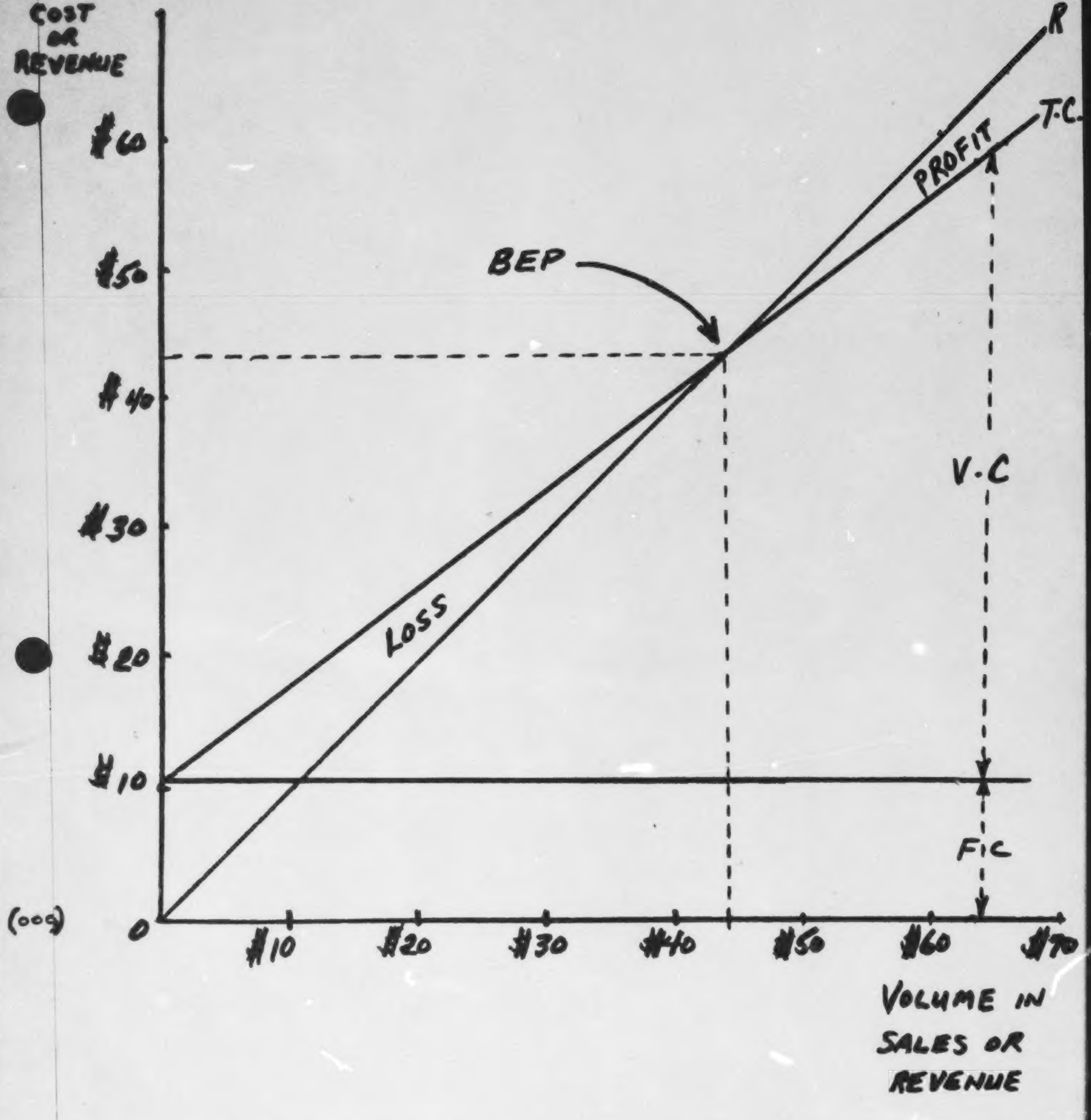
1. Prices change
2. Various costs do not always "fit" the definitions-variable or fixed and their behavior may change
3. A certain range of capacity or volume is assumed and the analysis is only valid within that range (smallest to optimum volume)
    - a. Short run time period
    - b. Fixed capacity or volume
4. The break-even analysis may vary greatly for each product line; therefore, several graphs must be constructed

WILSON COMPANY
BALANCE SHEET
DECEMBER 31, 1977

ASSETS			
Current Assets			
Cash		$ 4,000	
Accounts Receivable		5,000	
Notes Receivable		500	
Inventory		9,800	
Prepaid Insurance		200	
Supplies on hand		300	
Total Current Assets			$ 19,800
Property, Plant and Equipment			
Store fixtures	$ 2,100		
Less: Accumulated Depreciation	800	$ 1,300	
Delivery Equipment	$ 8,000		
Less: Accumulated Depreciation	3,000	5,000	
Office Equipment	$ 2,400		
Less: Accumulated Depreciation	1,200	1,200	
Total Property, Plant and Equipment			7,500
Total Assets			$ 27,300
LIABILITIES AND OWNER'S EQUITY			
Current Liabilities			
Accounts Payable		$ 6,000	
Notes Payable		1,000	
Total Current Liabilities			$ 7,000
Long-term Liabilities			
Mortgage Payable			4,000
Owner's Equity			
Thomas Wilson, Capital			16,300
Total Liabilities and Owner's Equity			$ 27,300

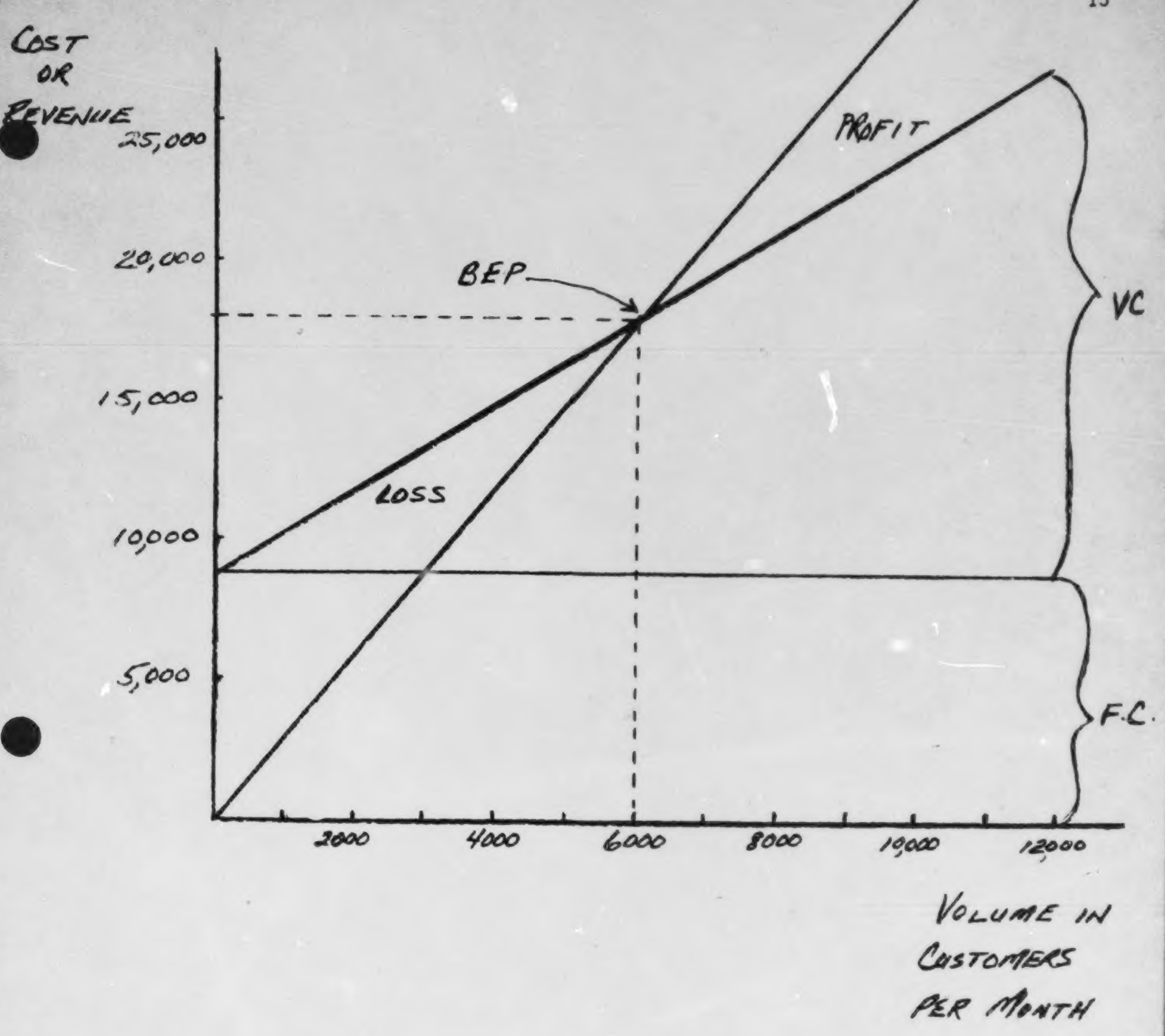
WILSON COMPANY
INCOME STATEMENT
FOR THE MONTH OF DECEMBER, 1977

Revenue				
Sales				$62,700
Less: Sales Returns and Allowances			$ 300	
Sales Discounts			900	1,200
Net Sales				$61,500
Cost of Goods Sold				
Inventory (December 1)			$ 8,000	
Add: Net Purchases				
Purchases		$42,000		
Less: Purchase Returns and Allowances	$1,000			
Purchase Discounts	800	1,800		
		$40,200		
Add: Transportation In		600	40,800	
Cost of Goods Available for Sale			$48,800	
Less: Inventory (December 31)			9,800	
Cost of Goods Sold				39,000
Gross Profit on Sales				$22,500
Operating Expenses				
Selling Expenses				
Salesperson's Salaries		$ 8,000		
Delivery Expenses		3,620		
Advertising		250		
Depreciation on Delivery Equipment		100		
Total Selling Expenses			$11,970	
Administrative Expenses				
Rent Expense		$ 2,400		
Office Salaries		2,000		
Utilities Expense		580		
Supplies Used		50		
Total Administrative Expenses			5,030	
Total Operating Expenses				17,000
Operating Income				$ 5,500
Less Taxes on Operating Income				1,500
Net Income for December				$ 4,000



BREAK-EVEN GRAPH

T.M. 3



BREAK-EVEN GRAPH

T.M. 4

RATIO AND BREAK-EVEN ANALYSIS
UNIT III - THIRD SESSION

ASSIGNMENT SHEET - RATIOS

Given: The information contained in TM 1 (Balance Sheet) and TM 2 (Income Statement). Assume all sales are credit sales

Determine the fractions to yield the following ratios:

PROFITABILITY

1. Return on investment = 24½%
2. Return on assets = 14.7%
3. Profit margin on sales = 6½%
4. Gross Profit to sales = 36.6%

SHORT-TERM LIQUIDITY

5. Working capital = $12,800
6. Current ratio = 2.83
7. Acid test ratio = 1.43
8. Working capital turnover = 4.8 times
9. Accounts receivable turnover = 12.3 times
10. Average collection period = 29.7 days
11. Inventory turnover = 6.9 times (use net sales)

FINANCIAL STRUCTURE/SOLVENCY

12. Debt to equity ratio = 67.5%
13. Tangible net worth ratio = 46%
14. Asset turnover = 2.3 times

ASSIGNMENT SHEET - BREAK-EVEN ANALYSIS

Given the following data relative to Kaz Kar Wash Co.

Fixed costs: $4,000 per month
Variable costs: $.20 per car washed
Price: $1.00 per car washed

Determine:

1. The number of cars that must be washed to break even.
2. The number of cars that must be washed to earn a profit of $2,000 per month.

Check your work:
1. 5000 cars must be washed to break even.
2. 7500 cars must be washed to earn a $2000 profit.

RATIO AND BREAK-EVEN ANALYSIS
UNIT III - THIRD SESSION

TEST

Match the following terms with the definitions listed below.

a. fixed costs
b. financial ratios
c. variable costs
d. break-even analysis

____ 1. Show the relationship between various items on the financial statements.

____ 2. Those costs that, in total, do not change when there are increases or decreases in the volume of activity.

____ 3. An approach or technique for analyzing the relationship existing among costs, revenues and profits, as the volume of sales dollars or unit output changes.

____ 4. Those costs that, in total, change when there are increases or decreases in the volume of activity.

5. Proper interpretation of ratios should include

   a. comparing them with your business's past experience

   b. comparing them with your industry's standard ratios

   c. looking for trends and changes

   d. all of the above

6. One of the ratios used to evaluate profitability is return-on-investment. Which of the following is it?

   a. $\frac{\text{Net Income}}{\text{Net Sales}}$

   b. $\frac{\text{Current Assets}}{\text{Current Liabilities}}$

   c. $\frac{\text{Total Debt}}{\text{Owner's Equity}}$

   d. $\frac{\text{Net Income}}{\text{Owner's Equity}}$

7. The current ratio gives an indication of a business's ability to

   a. meet its current debt obligations

   b. earn a satisfactory profit margin on sales

   c. effectively utilize assets

   d. control bad debts

8. Which ratio shows the critical relationship between borrowed funds and invested capital?

   a. current ratio

   b. return on assets

   c. debt-to-equity

   d. accounts receivable turnover

9. Ratios must be carefully interpreted to be useful. Which of the following are important special considerations?

   a. fluctuations in the economy

   b. unique aspects of your business

   c. seasonal variations

   d. all of the above

10. In comparing the behavior of costs and revenues in response to volume changes, break-even analysis is a valuable planning and control technique. What is meant by volume?

    a. sales dollars

    b. unit output

    c. total costs

    d. can be either sales dollars or unit output

11. What kinds of information can break-even analysis provide?

    a. how to improve debt-equity ratio

    b. the volume required to cover all variable and fixed costs

    c. the impact on profits (or losses) when volume is above (or below) the break-even-point

    d both b and c are correct

12. Generally, property taxes, store rent and depreciation are what type of cost?

    a. variable costs

    b. fixed costs

    c. both a and b

13. The break-even graph illustrates the importance of maintaining a high level of sales to maximize profits. The graph shows that above the break-even point, as sales increase

    a. profits increase at a greater rate

    b. profits increase at the same rate

    c. profits do not change

    d. profits begin to fall off

14. Which of the following is a limitation of break-even analysis?

    a. it can not be done with a mathematic equation

    b. it assumes all costs are fixed

    c. it can only be applied to the data contained on an income statement for the total operation

    d. it assumes a certain range of volume and is valid only in the short run.

RATIO AND BREAK-EVEN ANALYSIS
UNIT III - THIRD SESSION

ANSWERS TO TEST

1. b
2. a
3. d
4. c
5. d
6. d
7. a
8. c
9. d
10. d
11. b
12. b
13. a
14. d

BUDGETING AND FORECASTING
UNIT III - THIRD SESSION

UNIT OBJECTIVE

After completion of this unit, the participant should be able to explain the merits of forecasting, methods of implementing forecasting procedures, and the limitations of forecasting for the small business. He should further be able to explain fixed asset management in relation to the payback method of capital budgeting. This knowledge will be evidenced through demonstration and by scoring eighty-five percent on the unit test.

SPECIFIC OBJECTIVES

After completion of this unit, the participant should be able to:

1. Match terms associated with forecasting to the correct definition.
2. List three reasons why businessmen must concern themselves with forecasting.
3. State how forecasting facilitates the construction and revision of the firms short-range budget.
4. Indicate two uses of long-range predictions.
5. State one of the limitations of forecasting for small firms.
6. Name three publications and/or sources to small business managers which would enhance their ability to forecast national trend.
7. List two approaches to developing forecasts for a firm.
8. List in order the steps required in a formalized forecast.
9. Identify two indicators recognized as closely correlated to retail trends.
10. Describe the information obtained from various national indicators used in forecasting business trends.
11. List three state and local sources of useful forecasting information.
12. Match terms associated with budgeting to the correct definition.
13. List two reasons for fixed asset management.
14. Describe the costs to be considered in determining the appropriate fixed asset investment.

15. Discuss reasons for implementing capital budgets.
16. List two basic steps in developing a capital budget.
17. Explain how the payback method of capital budgeting is handled.
18. Describe two situations where the payback method of capital budgeting is particularly useful.
19. Describe two deficiencies of the payback method of capital budgeting.
20. List two considerations other than the payback period that are necessary in determining investment choices.

BUDGETING AND FORECASTING
UNIT III - THIRD SESSION

INSTRUCTIONAL MATERIALS

I. Included in this unit:

  A. Objectives

  B. Information sheet

  C. Transparency masters

    1. TM 1--Growth of Disposable and Personal Income, 1965-1970

    2. TM 2--Personal Consumption Expenditures 1950-1970

  D. Assignment sheets

    1. Assignment sheet 1--Forecasting for the Small Business

    2. Assignment sheet 2--Capital Budgeting

  E. Test

II. References

  A. Stegall-Steinmetz-Kline. *Managing the Small Business*. Homewood Illinois: Richard D. Irwin, Inc.

  B. Broom-Longenecker. *Small Business Management*. Cincinnati, Ohio: South-Western Publishing Co.

  C. Klatt. *Small Business Management: Essentials of Entrepreneurship*. Belmont, California: Wadsworth Publishing Company, Inc.

  D. Rachman. *Retail Strategy and Structure*. Englewood Cliffs, New Jersey: Prentice-Hall, Inc.

BUDGETING AND FORECASTING
UNIT III - THIRD SESSION

INFORMATION SHEET

I. Terms and definitions

   A. Forecasting--Prediction of the course of business activity in the future from facts currently known

   B. Predictions--Statements of probabilities based on factual information which is seldom complete or beyond question

II. Three reasons why businessmen must concern themselves with forecasting

   A. An understanding of the future course of business activity is essential for the prediction of sales

   B. Budgeting is impossible unless some knowledge of future business activity is known

   C. Enables firms to commit their resources with maximum assurance of long-range profitability

III. Short-range forecasting is principally concerned with accurately forecasting sales to facilitate the construction and revision of the firms budget

   A. Determining industry sales potentials

   B. Determining the company's share of the market in light of past sales experiences

IV. Long-range forecasting requires predictions of company growth and the determination of fixed asset needs both for expansion and replacement purposes

   A. Population changes

   B. Variations in the standard of living

V. Limitations of forecasting in small firms

   A. Costs in terms of time and money expended is prohibitive

   B. Such firms usually lack the knowledge or appreciation of forecasting as a tool of management

VI. Tools available for use by small business managers to enhance their ability to forecast:

- A. Trade association publications
- B. Kiplinger Washington Letter
- C. Business Week
- D. Wall Street Journal
- E. Government publications
    - 1. Survey of Current Business
    - 2. Federal Reserve Bulletin
    - 3. Monthly Labor Review

VII. Two approaches to developing forecasts for a firm

- A. Personal judgment
- B. Formalized forecasting

VIII. Two steps required in formalized forecasting

- A. Determination of what economic factors are good indicators of the firm's potential business
- B. Determination of how to measure these factors and in particular what impact each may have on the forecast

IX. Two indicators recognized as closely correlating to retailing trends (TM 1 & TM 2)

- A. Disposable personal income
- B. Business investments

X. Five national indicators business may consider in forecasting general business conditions

- A. Federal Reserve Production Index--Measures the changes in physical volume of output in manufacturing and mining
- B. Manufacturers' Inventories--Represents the book value of stocks on hand at the end of the month or quarter
- C. Plant and Equipment Expenditures--Measures the volume of new plant and equipment of private business concerns aside from agriculture
- D. Housing and Residential Building Contracts--Measures the volume of privately owned dwelling units and construction contracts for work about to get under way

- E. Consumer Spending for Services, Durable and Nondurable Goods--Represents spending patterns for three major consumer divisions

XI. State and local information useful in forecasting

- A. Statistical research data published by the University of Nebraska
- B. Auto registrations
- C. New industries
- D. Agricultural statistics
- E. Building permits

XII. Terms and definitions

- A. Budgeting--An overall financial plan which embodies anticipated income and expenses over a definite period of time
- B. Sales budget--A budget figure based on forecasts of the future and the basis of all budget information
- C. Materials budget--Prediction of materials needed to fill production budget and includes costs
- D. Production budget--Prediction of units needed to meet sales predictions
- E. Direct labor budget--The amount and cost of labor needed to produce units budgeted
- F. Manufacturing expense budget--The predicted costs or expenses directly related to the manufacture of units needed
- G. Cost of goods manufactured and sold budget--Based on information budgets related to manufacture and sale of goods and used to arrive at a projected gross income figure as well as a cost per unit sold
- H. Selling and administrative expense budget--The determination of other costs associated with the business but not directly related to the manufacture of goods
- I. Cash budget--Prediction of the cash expenditures and receipts as well as the balance on hand at the end of the period
- J. Accounts receivable budget--Prediction of charge sales and collections in relation to cash flows
- K. Inventory budget--Estimate of inventory purchases necessary to reach budgeted sales
- L. Capital expenditure budget--Evaluation of fixed asset investment opportunities in light of future growth potentials

XIII. Reasons for fixed asset management

A. Investment of funds in fixed assets involves the commitment of large sums of money over an extended period of time

B. It is a form of deferred expense that must be considered in other budgeting activities

C. Cash outlay is made at one point in time, but the cost of the outlay is charged to those periods in which the use of the assets is realized

D. Unlike inventories, fixed assets cannot be readily changed and often must be accumulated well in advance of the expected long-run increases in sales

XIV. Costs to consider in determining the appropriate fixed asset investment

A. Cost of the funds to purchase the fixed assets

B. Tools or equipment needed to service the assets

C. Cost of space occupied including depreciation, maintenance, rental, taxes, and utility costs

D. Service costs including property taxes, insurance, maintenance and depreciation

E. Risk of obsolescence

XV. Reasons for implementing capital budgets

A. Involves relatively large sums of money for long periods of time

B. Errors in evaluating fixed asset investment opportunities can cause serious consequences

C. Most firms, at any point in time, have several investment opportunities that could be undertaken

D. Capital budgeting is the means for evaluating investment opportunities in terms of profitability

E. Capital budgeting is based on the assumption that capital should be employed in such a way as to provide the most profitable return

F. Accepting the proposition that capital may not be adequate to cover all possibilities, the manager must make choices

XVI. Two basic steps in developing a capital budget

A. Determine the net initial outflow of cash required by the new investment

1. Cash receipts--salvage of the old

2. Costs associated with the purchase in addition to the purchase itself

B. Determine the net annual inflows of cash as a result of the expenditure

XVII. The payback method of capital budgeting

A. Involves determining the length of time necessary for the sum of the net cash benefits to equal the initial outlay

B. Calculated by dividing the cash outlay by the annual cash benefits

C. Do this for each possible investment

D. Rank the investments according to their payback period

XVIII. The payback method is particularly useful for businesses with cash deficiencies and those involved in industries where rapid technological changes occur

XIX. Deficiencies of the payback method

A. Ignores variations in the rate at which net cash savings are realized

B. Ignores the time value of money

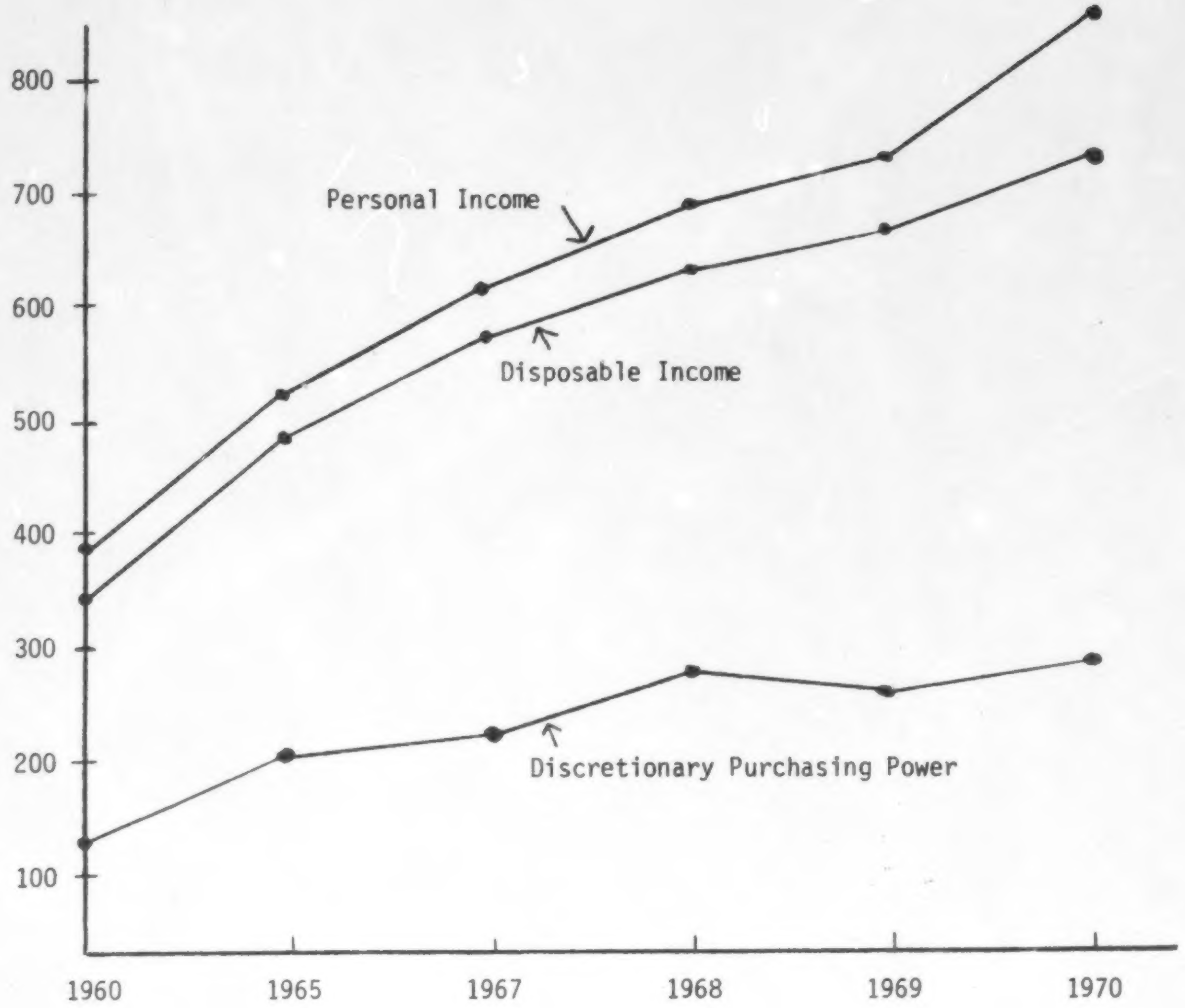
C. Ignores any stream of income extending beyond the payback period

XX. Other considerations necessary in determining investment choices

A. The risk factor associated with the probability of realizing the anticipated income stream

B. Nonmonetary aspects of the investment decision

GROWTH OF DISPOSABLE AND PERSONAL INCOME, 1965-1970



Source: U.S. Department of Commerce

TM 1

PERSONAL CONSUMPTION EXPENDITURES 1950-1970
(in billions of dollars and as a Per Cent of Total Expenditures)

Type of Product	1950	1960	1970
Total consumption	$191.0	$325.2	$615.8
Food, beverages and tobacco	58.1	87.5	142.9
Clothing, accessories and jewelry	23.7	33.0	62.3
Personal care	2.4	5.3	10.1
Housing	21.3	46.3	91.2
Household operations	29.5	46.9	85.6
Medical care expenses	8.8	19.1	47.3
Personal business	6.9	15.0	35.5
Transportation	24.7	43.1	77.9
Recreation	11.1	18.3	39.0
Private education and research	1.6	3.7	10.4
Religious and welfare activities	2.3	4.7	8.8
Foreign travel and other, net	.6	2.2	4.8
Total	100.0%	100.0%	100.0%
Food, beverages, and tobacco	30.4%	26.9%	23.2%
Clothing, accessories, and jewelry	12.4	10.2	10.1
Personal care	1.3	1.6	1.6
Housing	11.1	14.2	14.8
Household operations	15.4	14.4	13.9
Medical care expenses	4.6	5.9	7.7
Personal business	3.6	4.6	5.8
Transportation	12.9	13.3	12.6
Recreation	5.8	5.6	6.3
Private education and research	0.8	1.1	1.7
Religious and welfare activities	1.2	1.5	1.4
Foreign travel and other, net	0.3	0.7	0.8

Source: Department of Commerce

TM 2

BUDGETING AND FORECASTING
UNIT III - THIRD SESSION

ASSIGNMENT SHEET #1--FORECASTING FOR THE SMALL BUSINESS

List sources you would use in preparing sales forecasts for your business.

Are there any problems in the use of this data? How would you evaluate its accuracy and validity?

How would you use this data?

BUDGETING AND FORECASTING
UNIT III - THIRD SESSION

ASSIGNMENT SHEET #2--CAPITAL BUDGETING

Indicate a capital expenditure that you might consider for your business.

Indicate how you would approach determining or assessing the feasibility of initiating such an investment.

BUDGETING AND FORECASTING
UNIT III - THIRD SESSION

TEST

1. Match the terms on the right to the correct definition.

    _____ a. Prediction of the course of business activity in the future from facts currently known.

    _____ b. Statements of probabilities based on factual information which is seldom complete or beyond question.

    1. Forecasting
    2. Predictions

2. List three reasons why businessmen must concern themselves with forecasting.

    a.

    b.

    c.

3. Indicate two uses of long-range predictions.

    a.

    b.

4. Indicate a limitation of forecasting for small firms.

5. Name three publications and/or sources of information available to small business managers which would enhance their ability to forecast national trends.

    a.

    b.

    c.

6. List three state and local sources of useful forecasting information.

    a.

    b.

    c.

7. Match the terms on the right to the correct definition.

_____ a. Prediction of the cash expenditures and receipts as well as the balance on hand at the end of the period

_____ b. Evaluation of fixed asset investment opportunities in light of future growth potentials

_____ c. An overall financial plan which embodies anticipated income and expenses over a definite period of time

_____ d. A budget figure based on forecasts of the future and the basis of all budget information

_____ e. The predicted costs or expenses directly related to the manufacture of units needed

_____ f. Prediction of units needed to meet sales

_____ g. The amount and cost of labor needed to produce units budgeted

_____ h. Prediction of materials needed to fill production budget and includes costs

_____ i. Estimate of inventory purchases necessary to reach budgeted sales

_____ j. Prediction of charge sales and collections in relation to cash flows

1. Budget
2. Sales Budget
3. Materials Budget
4. Production Budget
5. Direct Labor Budget
6. Manufacturing Expense Budget
7. Cash Budget
8. Accounts Receivable Budget
9. Inventory Budget
10. Capital Expenditure Budget

8. List two reasons for fixed asset management.

a.

b.

9. List two basic steps in the development of a capital budget.

a.

b.

10. Explain how the payback method of capital budgeting is handled.

BUDGETING AND FORECASTING
UNIT III - THIRD SESSION

ANSWERS TO TEST

1. a. 1

   b. 2

2. a. To predict sales

   b. To enable firm to develop reliable budgets

   c. To allow firm to commit resources with maximum assurance of profitability

3. a. Predict company growth

   b. Determine fixed asset needs

4. Indicate one of the following

   a. Costs in terms of time and money expended is prohibitive

   b. A lack of knowledge or appreciation of forecasting as a management tool

5. Publications and/or sources of information available to small business managers which enhance the ability to forecast national trends.
   Name three--

   a. Trade association publications

   b. Kiplinger Washington Letter

   c. Business Week

   d. Wall Street Journal

   e. Government publications

6. State and local sources of useful forecasting information
   Name three--

   a. Statistical research data published by UNL

   b. New industries and businesses--Chamber of Commerce

   c. Agricultural statistics

   d. Building permits

   e. Automobile registrations

7. a. 7
   b. 10
   c. 1
   d. 2
   e. 6
   f. 4
   g. 5
   h. 3
   i. 9
   j. 8

8. Reasons for fixed asset management
   List two--

   a. Investment of funds in fixed assets involves the commitment of large sums of money over an extended period of time

   b. It is a form of deferred expense that must be considered in other budgeting activities

   c. Cash outlay is made at one point in time, but the cost of the outlay is charged to those periods in which the use is realized

   d. Fixed assets cannot be readily changed and often must be accumulated well in advance of the expected need

9. a. Determine the net initial outflow of cash required by investment

   b. Determine the net annual inflows of cash as a result of the expenditure

10. Calculated by dividing the cash outlay by the annual cash benefits to determine the length of time necessary for the net cash benefits to equal the initial outlay. If more than one investment opportunity, the choices are ranked to determine the best.